FINANCIAL TIMES

PUBLISHED IN LONDON AND FRANKFURT

No. 28,096 Monday February 18 1980 ***20p

CONTINENTAL SELLING PRICES: AUSTRIA Sch 15; BELGIUM Fr 25; DENMARK Kr 4.25; FRANCE Fr 4; GERMANY DM 2.0; ITALY L 700; NETHERLANDS Fl 2.0; NORWAY Kr 4.25; PORTUGAL Esc 35; SPAIN Pta 70; SWEDEN Kr 3.75; SWITZERLAND Fr 2.0; EIRE 20p; MALTA 20c

NEWS SUMMARY

GENERAL

Colonel in Rhine Army killed

A British Army colonel died after being shot three times outside his home in Bielefeld, West Germany, on Saturday night. Police did not rule out IRA involvement.

Colonel Mark Coe, aged 44, was stationed at the headquarters of the British First Corps of the Rhine Army. He was awarded the Order of the British Empire this year.

A man and woman escaped as Colonel Coe staggered into his house where his wife and six children were waiting for him. He died in hospital.

Police said they were questioning a number of people but none had been charged.

Mugabe cancels Bulawayo rally

Rhodesian Nationalist leader Robert Mugabe called off a rally in Bulawayo, apparently in fear for his safety after two assassination attempts. Back Page

Ceasefire

Phalangist Radio said a ceasefire had been declared after six days of fighting in North Lebanon which left 60 dead. President Elias Sarkis had appealed for an end to the present crisis. Earlier story Page 2

Israeli embassy

Israeli diplomats arrived in Cairo to set up their first embassy in an Arab state. Their Egyptian counterparts postponed their departure for Israel until Wednesday.

Taylor comeback

Mr. Teddy Taylor, tipped for the Cabinet before his surprise defeat in the general election, will be chosen as prospective Conservative candidate in the Southend East by-election. Page 4

Derailment

Derailment of a passenger train near Bushey on Saturday night was caused by the failure of a track weld, British Rail said last night. Similar welds at other locations are being checked

Hostage setback

Hopes for the release of the U.S. Embassy hostages faded when it became clear Iran is demanding an apology President Carter is not willing to give. Page 2

Player suspended

Paul Ringer, the Wales forward sent off for foul play in England's 9-8 rugby union win at Twickenham, was yesterday suspended for eight weeks. Peter Robbins, Page 9

Botham century

England were 232 for six at the close of the second day of the Jubilee Test in Bombay in reply to India's first innings 242. Ian Botham scored 114.

Last voyage

Thousands lined the front at Brighton to see the Greek cargo ship Athina B pulled off the beach where she was stranded four weeks ago. A Salvation Army band played "Rule Britannia" but heavy mist spoiled the view. The vessel will be broken in Rainham, Kent.

Briefly . . .

Mark Thatcher, the Prime Minister's son, has dropped controversial plans to drive in Japan. "I have signed to drive for an all-British team based at Brands Hatch."

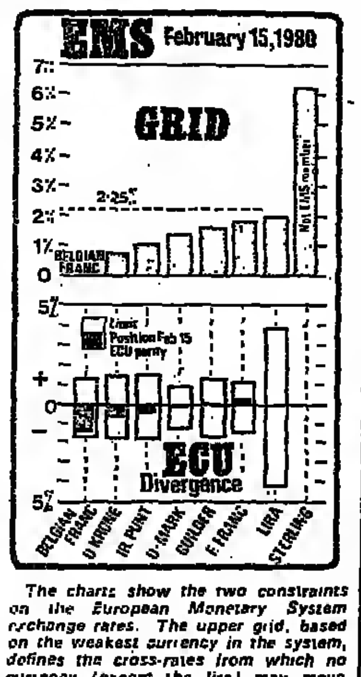
Charlie Cairoli, the clown with the bowler hat and shiny red nose, died three days after his 70th birthday.

Two Polish climbers made the first successful winter ascent of Mount Everest.

BUSINESS

EEC farm price talks start in Brussels

• AGRICULTURE ministers from the nine EEC countries meet in Brussels today to start negotiations on farm prices. The commission's cost-cutting proposals are likely to be opposed. Back Page



The charts show the two constraints on the European Monetary System exchange rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from its "central rate" against the European Currency Unit (ECU), itself a basket of European currencies.

• THE ITALIAN lira and French franc continued to vie for the top position in the European Monetary System, followed by the Dutch guilder. All three currencies have benefited from a shortage of liquidity in domestic money markets.

Paris call money returned to a five-year peak last week, and the Bank of France added funds to the banking system by purchases of first category paper.

Currency swaps by the Dutch central bank have helped the shortage of liquidity in the Amsterdam money market and also boosted the guilder. The Danish National Bank raised its discount rate to 13 per cent from 11 per cent on Friday, but the krone finished as the second weakest member of the EMS, above the Belgian franc.

• ITALY'S CONSUMER prices rose by 3.3 per cent in January, bringing the annual inflation rate to 21.4 per cent, the Common Market's highest. Back Page

• FIAT AND ALFA ROMEO are understood to be considering a deal which would block the proposed joint venture between Alfa and Nissan of Japan. Page 3

• BRITISH RAIL'S freight revenue target is an annual profit of £100m by 1990. Back Page

• U.S. PRIME RATE could rise from 15¾ per cent to 15½ per cent following the Federal Reserve Board's move to tighten credit and raise its discount rate to 13 per cent. Page 13; Feature, Page 10; Japan discount rate rise expected, Page 2

• IRAN plans to pull out of the Eurodif uranium enrichment venture, in which it took a 10 per cent stake in 1975. Page 2

• LLOYD'S of London's problems are deterring potential new members from seeking membership of the market. Page 4

COMPANIES

• MEDENS TRUST, instalment finance group, reports taxable profits up by 17 per cent from £276,760 to £325,670 for the six months ended December 31, 1979. Page 12

• DECCA'S television division sale may be agreed this week following talks between Mr. Gulu Lalvani, chairman of Binatone, and Decca management. Page 12

CONTENTS

For latest Share Index 'phone 01-246 8026

Steel unions 'throw BSC a lifeline' as talks resume

BY CHRISTIAN TYLER AND NICK GARNETT

Relations between the British Steel Corporation and the two leaders of the seven-week pay strike were restored last night and a new avenue opened for full-scale negotiations.

After three and a-half hours of talking in the unlikely surroundings of Teesside Airport, Mr. Bill Sirs of the Iron and Steel Trades Confederation said the BSC had been "thrown a lifeline" that might prevent serious damage to the British economy.

Yesterday's exploratory four-a-side talks will be resumed in London on Friday when the unions will define their demands more precisely both in terms of cash and what they will accept by way of productivity conditions.

Mr. Sirs and Mr. Hector Smith of the National Union of Blastfurnacemen turned down, however, the latest BSC offer because of the overwhelming rejection to it last week by delegates of the craft and general unions.

Mr. Sirs said: "We have given them the opportunity of a lifeline and if they do not accept that lifeline they have nothing."

At best it would take another 10 days or two weeks before the strike could end — assuming the BSC meets the unions' demands.

Mr. Bob Scholey, BSC chief executive, said he was disappointed that the union leaders had rejected key items in the draft document and was also disappointed it had taken them until now to come forward with clear objectives.

Stressing that there was no more money to be had, he said the pay dispute was now "fairly well bedevilled by recession"—that is, plant closures and general de-manning planned by the BSC. The unions had been asked to produce their own ideas for settling the pay issue.

Mr. Sirs will certainly argue again that the BSC withdraw closure plans and that money earmarked for redundancy pay should be used to increase wages.

There was a certain amount of common ground which would be spelled out at the end of the week, he said. Last night's talks had cleared one hurdle, but the big question of money remained.

The outcome of yesterday's meeting will be reported back to the ISTC's national executive today when delegates from the private steel companies—which are becoming the main target of the pickets—will also review their sympathetic strike action.

Kent miners are to join in a big assault on the privately-owned Sheerness Iron and Steel plant on the Isle of Sheppey within the next few days.

Their help was requested by Mr. Sirs last week in an effort to shut down the plant where his members have refused all along to come out in sympathy. The Isle of Sheppey could become the most serious industrial battleground of this dispute.

Another private maker, Manchester Steel, which is expected to be a target for mass picketing will not be operating today following a secret agreement between management and the workforce to work yesterday and the previous day, when the plant would normally have been closed.

Before yesterday's meeting the ISTC had already drafted its own counter-proposals listing acceptable conditions, but containing no cash figures. The BSC has not seen the document.

This draft rejects the commitment sought by the Corporation to streamlining of manpower, the removal of demarcation lines and efforts to establish common bargaining for all 13 steel unions at national level.

But the union, which will now sit down with the NUB to draw up a joint submission, is prepared to discuss the issue without commitment, to set up joint union productivity committees at plant level and to reduce absenteeism and overtime working.

It also wants to bring forward to next January 1 the cut in the working week offered by BSC from 1982.

The union has stuck fast to its demand that its 4 per cent payment for local productivity should be made whether or not local bargains are actually concluded. It was this that resulted in the collapse of formal negotiations ten days ago.

SECONDARY PICKETING PROPOSALS TOMORROW

Critics give Prior time

BY RICHARD EVANS, LOBBY EDITOR

MR. JAMES PRIOR, Employment Secretary, appears to have gained a valuable breathing space from his Conservative Party critics to implement his legislation on secondary action in industrial disputes without too much back-bench sniping. But failure to gain union compliance will bring greatly increased pressure for much tougher measures in the next Parliamentary session.

For the moment, Tory MPs who have been advocating much tougher measures against trade unions, including the banning of all secondary action and the imposition of criminal charges accept they have lost the argument following the compromise reached by Ministers last week.

Mr. Prior, who defended his "softly softly" approach yesterday, intends to publish his consultative document tomorrow. Amendments to the Employment Bill will then be drafted after a four- to five-week period of consultation with the TUC, the Confederation of British Industry, and others. The legislation is expected to become law in the summer.

But if it appears that the proposals limiting secondary action including blacking to first customer and first supplier are rejected outright by the unions, Mr. Prior will again come under fire from the back-benchers. In short, his party critics are putting Mr. Prior's cautious tactics on trial.

The main purpose of the consultative document, which will be shown to the Commons committee debating the Employment Bill before publication, is to supplement provisions on secondary picketing already in the legislation with restrictions on the immunities of trades unions from civil action for breach of commercial contract through secondary blacking and sympathy strikes.

Mr. Prior, after some pressure for tougher action, was given a standing ovation by Young Conservatives in conference at Scarborough after he had underlined the necessity of making the Government's industrial relations proposals work.

"It is important above all that the much-needed changes we are making will stick and will work. It is no use rushing in with tough-sounding measures which then will not work or cannot be enforced. It must always be a matter of balance," he declared.

Again and again Mr. Prior rejected the view that the law alone could solve industrial relations. It could, however, set down acceptable limits of behaviour and it could provide remedies for those who suffered when those limits were exceeded.

"The Government's judgment is that the limits of what is acceptable behaviour by trade unions must be drawn more tightly," he said.

There was violent reaction from the Labour Party at the weekend to the Government's plans to cut supplementary benefits to strikers' families by assuming that trade unions should bear part of the cost of strikes. One Labour Left-winger, Mr. Stan Thorne (Preston South), described the proposal as the most vicious legislation this century

The Cabinet is expected to discuss details of the scheme this week, following severe drafting problems involving union members and non-members and official and unofficial strikes. The legislation could be included in the Finance Bill implementing the Budget or in social services legislation now before Parliament.

Tories concerned about their image, Page 4

Polls split as Canada votes

by W. L. Luetkens in Toronto

CANADA ELECTS a new Parliament today with the latest opinion polls giving conflicting forecasts.

A Gallup poll shows Mr. Pierre Trudeau's Liberals having an almost impregnable lead of 20 per cent. If it is accurate Mr. Trudeau has a good chance of returning to power at the head of a Government with an overall majority, if a small one, marking an abrupt reversal in his political fortunes.

But a poll taken on behalf of the CTV television network puts the Liberals only 10 per cent ahead—and makes them almost level pegging with the Progressive Conservatives in Ontario, the most populated province, which generally decides Canadian elections. That would point to a minority Government—possibly headed by the present Prime Minister, Mr. Joe Clark, leader of the Conservatives.

Both polls agree that the New Democratic Party—something like a British-style Labour Party shorn of its left wing—may do better than ever.

Mr. Ed Broadbent, its leader, would probably finish up holding the balance of power. The pattern of the polls may reflect the contradictory emotions felt by many voters in English-speaking Canada. They are not quite sure whether, during his seven months in office, Mr. Clark reached the standards expected of a head of Government.

But they remember that the second part of Mr. Trudeau's period in office—from 1968 to 1979—was one of rising Budget deficits, inflation rates never far from 10 per cent, and a declining exchange rate.

French speaking Quebec will have a few such doubts: it is expected to vote firmly for Mr. Trudeau as one of its own.

Continued on Back Page

Petrol expected to cost £1.35 after the Budget

BY RAY DAFTER AND SUE CAMERON

PETROL PRICES in the UK seem likely to rise to over £1.35 a gallon this spring as a result of Budget tax increases now being considered by Sir Geoffrey Howe, the Chancellor, and rising costs.

The oil industry is expecting a significant rise in excise duty at the end of March for two basic reasons; the Treasury is looking for additional revenue and Energy Department Ministers see high petrol prices as a key part of their energy conservation plans.

It is pointed out in Whitehall that the tax element in petrol prices has been falling in real terms in recent years and that UK motorists are now paying considerably less for their petrol than buyers in many other parts of the European Community.

The average UK price of four star petrol is now about £1.23 a gallon. Excise duty accounts for about 37p of the total. The rest results from oil company costs (59p), dealer margins (about 10.5p in the case of one major oil group), and value-added tax (16.5p).

During the next few days oil companies are expected to add a further 4p to 5p a gallon to pump prices as they pass on recent rises in crude oil costs.

The Chancellor is widely expected to add at least 15 per cent. This would mean a minimum rise of 6p a gallon at the pump and possibly appreciably more, to the excise duty.

Mr. Peter Rees, Minister of State at the Treasury, told the Commons on January 3 that, if the tax on petrol and derv was increased in line with the rise in the retail price index last year (17 per cent), the Treasury would gather an extra £420m over a 12-month period. Such an increase would add 0.3 per cent to the retail price index.

Ministers have made it clear that they intend using fuel pricing as a cornerstone in their energy conservation strategy. They feel that high prices should be stimulus enough to encourage greater fuel efficiency. Poorer families, faced with difficulty in meeting the higher fuel bills and unable to instal energy conservation devices, are to be helped through new social services provisions.

Unpublished studies within the Energy Department indicate that much of the conservation impetus recorded after the 1973 fuel crisis has been lost. It was estimated that between 1973 and 1975-76 conservation measures were shaving some 6 per cent a year off consumption. Between 1976 and early 1979, when energy prices were declining in real terms, there was a very much lower saving.

The latest provisional figures from the Energy Department show that, although there was only a minimal rise in Gross Domestic Product between the third quarters of 1978 and 1979, total energy consumption rose by 5.2 per cent.

Market forces could help to lessen the impact of rising taxes and crude oil costs, however. Within the oil industry there is concern that lower-than-expected demand, coupled with the installation of new petrol-producing cracking plants in refineries, could cause something of a glut of petrol this year. If this happens companies may be forced to trim their prices and dealers may be encouraged to accept smaller margins.

Howe prepares Budget amid deepening gloom, Back Page

REPRESENTATIVE PETROL PRICES

	Pump price (per gallon)	Tax
Luxemb'rg (premium)	£1.19	41p
UK (four star)	£1.21	53p
W. Germany (super)	£1.29	51p
Sweden (premium)	£1.34	68p
Denmark (premium)	£1.49	68p
Belgium (premium)	£1.53	54p
France (premier—Paris zone)	£1.63	97p
Italy (premium)	£1.64	104p

Prices collected in late December and January; the [illegible] of collection vary so that [illegible] are not strictly co[illegible] Source: industry estima[illegible] UK, International Petroleum Times, February 1 for all other countries.

Tax figure includes compulsory storage fees in the case of Denmark and Sweden.

Gloomy outlook for engineering

BY HAZEL DUFFY, INDUSTRIAL CORRESPONDENT

THE SERIOUS outlook for UK engineering over the next 18 months has prompted employers and trade union representatives to warn the Government of the risks of long-term damage.

The Short Term Trends Working Party, whose report published today by the Engineering Employers' Federation, forecasts an 11 per cent fall in mechanical engineering sales this year in volume terms and a 10 per cent decline in net new orders. Employment in the industry dropped by 27,000 in the first ten months of last year, and the latest forecast indicates that many more jobs will be lost this year.

The working party does not make any recommendations on what should be done, nor does it specifically blame Government policies.

But letters which have been sent to Government departments, the Confederation of British Industry, the TUC, and the National Economic Development Office, seek to draw attention to the fact that the Government's long-term policy for the economy could have very serious consequences for industry.

Privately, however, economists in the working party admit that the exercise is likely to have little effect as civil servants sitting on the working party have said that their departments are already well aware of the situation.

Exports of mechanical engineering products provide more than half Britain's trade surplus in manufactured goods. But the report warns that the competitiveness of exporters is being seriously eroded by the strength of sterling and the continuing high rate of inflation in the UK.

Figures published in the report show that the combination of the two have put exporters at a growing disadvantage. Since 1975, the UK price disadvantage is around 11 per cent in relation to West Germany, over 30 per cent to the U.S. and around 50 per cent to Japan.

At home, the industry will suffer this year from the

Continued on Back Page
Details, Page 5

EEC 'scrap and build' ship scheme may not come into force

BY JOHN ELLIOTT, INDUSTRIAL EDITOR

PLANS FOR a Common Market "scrap and build" scheme to boost orders in European shipyards have little chance of coming into force.

Following a long-running debate in the European Commission in Brussels, Viscount Etienne Davignon, Industry Commissioner, is considering making what might turn out to be a final bid to win support for a scheme before Easter.

But he has only limited backing, and the plans may well founder because of conflicts within the community over how a scheme should operate, and because of the requirements of the EEC's competition policy.

Last November, the Council of Ministers considered proposals for EEC shipowners to receive financial support when they placed orders for ocean-going ships with an EEC shipyard, providing that they scrapped ships representing twice the tonnage to be built.

It was envisaged that 2m tons would be scrapped, and 1m tons built, each year for three years. If the scheme was introduced quickly enough, this would provide work to help keep shipyards in business till the market improved. It would also provide EEC shipowners with modernised vessels and so would fit in with the Common Market concept of helping to modernise industry.

But some EEC countries, including the UK, have objected to a Community-wide scheme. They fear they might not win their fair share of the orders —which for the UK would probably be about 200,000 tons a year.

Alternative proposals which have gained more favour would enable individual countries to set up schemes within rules laid down by the EEC. This, however, would require approval from the commission's competition directorate, which would probably take so long vetting the proposals that their introduction would no longer be worthwhile.

Other reservations about the idea have been voiced, including the problem that most of the scrapping work would have to go to the Far East because of limited facilities in Europe. It would also be difficult to ensure that ships were scrapped.

In an attempt to overcome resistance, Viscount Davignon is considering whether to propose a limited scheme as an experiment, possibly involving scrapping only 1m tons (and building 500,000 tons) a year for two years. But his opponents argue that it would be too small to be worthwhile, and that it would be better to shelve the plan.

OVERSEAS NEWS

Matthoefer in Turkey for aid talks

BY OUR FOREIGN STAFF

HERR HANS MATTHOEFER, the West German Finance Minister, arrived in Ankara yesterday to discuss Western aid for Turkey as riot police continued house-to-house searches for militant workers in at least six districts of Izmir, the country's third largest city.

Throughout Saturday there was a running battle between members of a 2,500-strong police task force and armed gunmen from various leftist groups. With the country's economic crisis generally considered as helping to fuel political violence, the week-long clashes in Izmir underline the urgency of the Government's requests for a major package of assistance.

This weekend the authorities had to appeal for fresh troops from outside Izmir. The trouble began when new management appointed to a state-run factory by the government of Mr. Suleyman Demirel tried to dismiss several hundred workers for their political beliefs. DISK, the radical trades union confederation, demanded a general strike, though called this off after 12 hours.

Workers and leftists set up barricades, shot at police, and called for support for their "liberation war against exploiters and fascism." According to some reports a number of the militants were Kurdish workers from eastern Turkey.

A 24-hour curfew has been introduced in some parts of the troubled port and at least three policeman were killed on Saturday.

Yesterday the country's National Security Council met and considered extending martial law to Izmir, one of the few major cities not yet under this ruling. Mr. Suleyman Demirel, the Prime Minister, has vowed to crush what he sees as an "incipient insurgency."

The purpose of Herr Matthoefer's mission is to assess Turkey's requirements. Later he will travel to Britain and the U.S. and communicate with France to obtain their co-operation. He may also visit Saudi Arabia.

Credits to Turkey will be channelled through the Organisation for Economic Co-operation and Development (OECD). A session at which the organisation's members will pledge support for the package is due in Paris on March 25. As a result, according to West German officials, Turkey may raise new loans of between \$1bn and \$1.5bn (£433m-£650m) to support its balance of payments this year.

The OECD is also expected to agree to a restructuring of around \$700m of guaranteed commercial debt and official medium and long term credits to Turkey coming due in the year to June 1981. Turkey is also asking for the rescheduling of \$2.3bn of debts rolled over by the OECD in the past two years.

Further debt relief and balance of payments support is necessary this year because the country has been unable to sort out its economy.

The Soviet invasion of Afghanistan has underlined Turkey's military and economic weakness and given a new impetus to Western salvage efforts, spearheaded by Germany.

Mr. Demirel last month took measures to liberalise the economy and open it to foreign capital in line with recommendations from the West

Herr Hans Matthoefer—leading talks on OECD aid

Bani-Sadr again demands apology for U.S. policies

BY SIMON HENDERSON IN TEHRAN

HOPES FOR an early release of the U.S. hostages held at the Tehran embassy faded at the weekend when it became clear that Iran was still demanding that Washington should first apologise for its past policies towards Iran. This is a condition which President Jimmy Carter has said he found unacceptable.

The Iranian demand was part of three conditions spelt out by President Abol Hassan Bani-Sadr in an interview with Greek television. The others were a commitment never to interfere again in Iran's domestic affairs, and a promise not to obstruct the extradition of the former Shah and other "criminals of the old regime" to stand trial in Iran.

While the conditions are not really new, they have been seen as necessary tactical weapons for Mr. Bani-Sadr to win the approval of Ayatollah Ruhollah Khomeini for a settlement and to outmanoeuvre the militant students at the embassy.

But after the euphoria of last week, when statements were being made of a possible release of the hostages within a day or two, the demand for these conditions made the crisis appear to the back in deadlock.

Growing awareness of this situation is seen as the reason for delay in announcing a United Nations-sponsored commission to investigate the crimes of the Shah by a panel including a Paris lawyer, M. Edmond Louis Petiti, and members from Algeria, Bangladesh, Syria and Venezuela. In the event the UN said yesterday that the U.S. had agreed to the commission's make-up and Iran's agreement was awaited.

In other developments the Iranian government has told the 2,000 army and air force NCOs occupying the Tehran university mosque for the past six days in support of demands for army councils, to go back to their units.

President Bani-Sadr said in a speech on Friday that he supported the reorganisation of the armed forces but condemned the indiscipline of the servicemen.

In the south-western province of Khuzestan, which produces most of Iran's oil, rescue work is continuing after the serious floods which followed heavy winter rains. Over 250 people are thought to have died. An oil pipeline to the main Abadan refinery was damaged reducing the input by 100,000 barrels a day, and a gas pipeline was damaged earlier last week, but officials deny any drop in Iran's exports.

Japan discount rate rise expected

BY CHARLES SMITH, FAR EAST EDITOR, IN TOKYO

THE BANK of Japan is expected to increase discount rate by 1 per cent from its present level of 6.25 per cent in response to last week's U.S. discount rate increase.

The increase will probably take effect on Tuesday after a decision on the new rate at a meeting tomorrow of the Bank's Policy Board. An upward adjustment in commercial bank reserve ratios is also likely.

The Bank of Japan began discussions on a discount rate increase early this month, but ran into early opposition from the Ministry of Finance which dislikes changes in interest rates while the budget is going through the National Diet.

The case for raising the rate was strengthened after the publication of the January wholesale price index which showed an alarming rise of 2.1 per cent.

The decision was clinched when the U.S. raised its discount rate. Higher U.S. interest rates would weaken the yen (which in turn would contribute further to Japan's domestic inflation) if no corresponding adjustment were made to interest rates in Tokyo.

The expected rise in the discount rate would be the fourth in just under a year. Despite an increase, wholesale prices will continue to rise for some months to come (reflecting the higher cost of imported raw materials) but the central bank hopes to prevent "imported inflation" from spilling over into domestically generated inflation.

A close watch is being kept on speculative activity in certain basic manufactured products (such as steel and paper and pulp).

The government is also watching consumer prices which, for the time being, are rising more gradually than wholesale prices. If consumer prices continue stable for the next three months there is a hope that Japan's annual round of wage bargaining may result in a fairly moderate settlement. This would make it easier to contain inflationary pressures elsewhere in the economy during the rest of the year.

Jalalabad garrison under fire

Moslem insurgents have recently attacked Soviet and Afghan forces in the suburbs of the key eastern town of Jalalabad. Our Own Correspondent writes from Peshawar, Pakistan.

Reports in Peshawar, 90 miles from the Afghan border, describe nightly artillery barrages and mortar fire from pro Government forces defending a regimental garrison from guerrilla attacks launched from the hills surrounding Jalalabad's south-ern outskirts.

S. Yemenis for Kabul

Two South Yemeni infantry battalions have been flown to Afghanistan in Soviet aircraft to help support the Kabul Government, according to the newspaper, Al Ahram, AP reports from Cairo.

Israeli Cairo mission

Israeli diplomats arrived in Cairo yesterday to set up their first embassy in an Arab country. Reuter also reported that security was tightened in Israel to guard against attempts to disrupt the normalisation of relations.

Spain tourism income

Income from tourism in Spain last year totalled \$6,483m, 18.6 per cent more than in 1978, according to the Secretariat of State for Tourism, AP reports from Madrid. Spaniards travelling abroad spent \$921.9m last year, compared with \$566.9m in 1978, the secretariat said.

Iranians pulling out of Eurodif

BY DAVID WHITE IN PARIS

IRAN PLANS to pull out of the Eurodif uranium enrichment venture, in which it took a 10 per cent stake in 1975, Mr. Sadeq Qotbzadeh, the Iranian Foreign Minister, said during a visit to Paris at the weekend.

His statement adds a further knot to a tangle of discussions about the future ownership structure of Eurodif, a five-sided consortium responsible for a plant a Tricastin in south-east France.

A French commercial court froze Iran's assets in Eurodif before Christmas, following problems over Iranian contributions to the Eurodif financing programme.

Mr. Qotbzadeh said his country was abandoning plans to develop nuclear energy and would therefore not participate in the enrichment venture. Iran has already cancelled contracts for French nuclear power installations.

The Iranians have been seeking repayment of a \$1bn (£433m) loan made to Eurodif to supplement the financing programme. Iran holds 40 per cent in a joint company, Sofidif, alongside French State interests. Sofidif in turn has a 25 per cent stake in Eurodif.

Under the original schema, Iran was to contribute, along with its French, Italian, Spanish and Belgian partners in investments of \$5.2bn up to next year. From 1981 onwards it would have been entitled to receive enriched uranium from the Tricastin plant to fuel its reactors.

The organisation of Eurodif was discussed at a meeting in Madrid of the partner countries earlier this month.

The Italians, with a 25 per cent stake, are believed to want to cut their commitment since delays in their nuclear energy programme have reduced their need for enriched uranium. Besides its stake in Sofidif, France has a 27.8 per cent direct interest in Eurodif, and Spain's hand Belgian concerns hold just over 11 per cent each.

'Largest ever' hurricane loss

By John Wicks in Zurich

HURRICANE FREDERIC caused the largest ever insurance loss for a single catastrophe when it hit 10 U.S. states last September. This is stated by Swiss Reinsurance Company, of Zurich, which gives the insured damage sum as \$752m, compared with \$715m claimed after hurricane "Betsy" in 1965.

In a report on natural catastrophe and major insurance losses in 1979, the company reports a relatively large number of natural catastrophes for the year, those in the U.S. alone costing private insurers some \$1.7bn.

Shortly before hurricane Frederic several thousand people died in hurricane David, which particularly affected the Caribbean.

Fighting rages in N. Lebanon

BY ROGER MATTHEWS IN BEIRUT

HEAVY FIGHTING involving tanks and artillery still raged in Northern Lebanon yesterday, completely overshadowing appeals by President Elias Sarkis for an end to the present crisis.

At least 60 people are reported to have been killed in the latest fighting between the right-wing Phalangist militia of Mr. Pierre Gemayel and the Syrian Army, which is backed by the Marada brigades of former President Suleiman Franjieh.

The fighting has to be seen against the background of Syria's decision to withdraw its peace - keeping troops from Beirut, where they are holding the line between the right-wing Christian militia in East Beirut and left-wing Moslems and their Palestinian allies in the West.

The Syrians have been increasingly angered by the close co-operation between the right-wing militias and Israel, and the damage this is causing to efforts to achieve national reconciliation.

The fighting in mountainous Northern Lebanon is concentrated around the small town of Qnat, which the Phalangists still claim to control. Heavy damage has been reported, with thousands of people fleeing their homes.

The Syrians say the fighting started when a patrol was fired on and a soldier killed, but the Phalangists fear it is the start of a major Syrian push to change the balance of power in the area. Mr. Camille Chamoun, leader of the right-wing National Liberal Party, is believed ready to throw his militia into the battle if it does not stop soon. But with the danger of renewed fighting in Beirut, the right-wingers will be well aware of the risks of spreading their forces too thinly.

Intermittent shelling also continued in Southern Lebanon between the Israeli-backed forces of Major Saad Haddad and Palestinians and left-wing Moslems.

President Sarkis has said an initiative was being launched to find an overall political solution to Lebanon's problems. Meetings with all Lebanese leaders would be taking place soon.

Cut in Austria growth forecast

BY DAVID WHITE IN PARIS

AUSTRIA'S ECONOMIC growth rate this year is likely to be less than 2 per cent—a level already below that of official forecasts—as a result of the latest round of oil price increases.

This is the conclusion of a report published here by the Organisation for Economic Co-operation and Development (OECD). Austria's real growth rate in 1979 was 5.2 per cent.

The OECD's original 2 per cent estimate for the increase in gross domestic product, which was based on an expected slowdown during the course of the year, was made before the Caracas meeting of the Organisation of Petroleum Exporting Countries in December. As in other Western countries, the effects of the price increases which have followed are expected to include higher inflation and lower real growth.

Not counting this extra burden, the current account of Austria's balance of payments was expected to show a deficit of \$2.5bn, compared with \$2bn in 1979.

The OECD said the stimulus from foreign demand would be reduced and Austria's terms of trade would worsen. But it said Austria remained one of the best-placed countries in the West to help keep up the overall level of demand. An increase in the current account deficit "would probably be acceptable" if it just reflected the rise in oil prices and the country's cyclical difficulties.

FINANCIAL TIMES, published daily except Sundays and holidays. U.S. subscription rates \$365.00 per annum. Second Class postage paid at New York, N.Y., and at additional mailing centres.

SHIPPING REPORT

Tanker rates under pressure

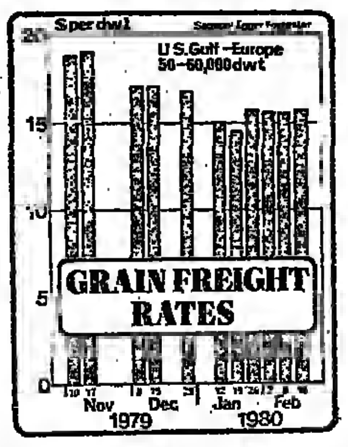
By William Hall, Shipping Correspondent

RATES FOR very large crude carriers (VLCCs) and ultra large crude carriers (ULCCs) have come under further pressure in the tanker market. Current rates for VLCCs on the standard voyage from the Arabian Gulf — Westwards hover around Worldscale 30.

Shipowners can take comfort from the fact that a big U.S. oil company has been seeking VLCC tonnage for 12 month time charters at an effective Worldscale 41. However, the tanker market will not start to recover until the current mild weather ends and the oil companies find their stocks being run down.

There have been many inquiries in the sale and purchase market but little business has been transacted. *In the dry cargo sector* the Cast group sold the 1968 built, 51,666 dwt Cast Beaver, for around $8.7m. In the tanker market there was some demand for 80/100,000 tonners. A five-year-old 92,000 dwt tanker changed hands at just under $20m and a similarly sized vessel—but twice the age—was reportedly sold for $11m.

In the dry cargo markets, the strength of freight rates remains puzzling, given the



United States embargo on Russian grain sales. This should have led to a sizeable amount of surplus tonnage coming onto the market. However, after a short hiccup, the key rates have hardly moved over the last month. The going rates for 50,000 ton cargoes from the U.S. Gulf to Europe is just under $16 per ton.

Several possible explanations exist for this surprising strength. Any disruption in the market tends to reduce its efficiency, which could mean that the potential surplus tonnage is not as big as first feared. In addition, seaborne trade in commodities such as coal is still buoyant.

Galbraith Wrightson reports that the coal markets are active and that there is increasing demand for forward positions. A 47,000-ton cargo of coal from Hampton Roads to Japan was fixed at $21.50. Demand for iron ore cargoes is rather quiet but an 80,000-ton cargo from Port Cartier in Canada to Taranto in Italy was fixed at $9.20.

E Bloc embargo threatens Hamburg port

By Roger Boyes in Bonn

WORSENING RELATIONS between East and West could significantly reduce the number of Soviet ships passing through Hamburg harbour and thus cut into the income of the key West German port.

Hamburg officials stress that the port should not be drawn into the crossfire of economic sanctions and counter-sanctions between East and West—rather Hamburg should hang on to the Hansa tradition of a free port and be open to ships of all flags, including those from the Soviet Union.

The U.S. grain embargo against the Soviet Union is, according to officials, likely to have an impact on Hamburg. Some 500,000 tonnes of U.S. grain intended for the Soviet Union was unloaded in Hamburg last year—the embargo will thus bite into various fees, such as those for the port's floating grain cranes.

None the less the major effect on Hamburg will not come from the grain embargo—its main role in East European grain trade has so far been with East German and Polish shipments. Rather, the port's principal concern is that its role as a staging post in Soviet cross trading will suffer. About 1,000 Soviet vessels used Hamburg as a linking port in trade between U.S., South America, and other countries and the North Sea ports. This accounted, according to port officials, for 5m tonnes of freight last year out of a total turnover of 62m tonnes.

William Hall adds: The amount of traffic passing through Hamburg increased by 15 per cent to 63.2m tons in 1979. The port handles 80 per cent of West Germany's foreign trade.

Bulk cargo traffic rose by 21 per cent to 45.7m tons, and container traffic rose by 6.2 per cent to 637,402 20-foot equivalent units (TEUs).

Fiat in talks to prevent Alfa deal with Nissan

BY RUPERT CORNWELL IN ROME

A DEAL between Fiat and Alfa Romeo to block the proposed joint venture between Alfa and Nissan of Japan is understood to be under discussion at a high level here.

Fiat, Italy's biggest private industrial group, has officially so far expressed its willingness only to look at ideas for co-operation with the State-owned car manufacturer Alfa. But recently it has repeatedly stressed its opposition to a Nissan-Alfa agreement.

Consultations this week are expected to focus on whether Fiat could replace Nissan as the supplier of car bodies on which Alfasud engines would be mounted at a plant to be built close to Alfasud's existing Pomigliano d'Arco works, near Naples.

A Fiat initiative can only increase the complexity of the bargaining and manoeuvring aroused by the controversial Nissan link, now understood to be near completion. Alfa's initial reaction to suggestions of Fiat as a new partner appears, from reports here, to have been cool.

The latest developments are proof of Fiat's anxiety at what it fears would be a Japanese bridgehead for Europe in Italy. It would come as the Turin-based group is struggling to increase its own productivity and competitiveness after a disappointing 1979.

The developments also cannot fail to influence the deliberations of a special working group set up by the Italian Government to examine the future of Italy's car industry.

Fiat itself took the rare step this weekend of publishing an internal memorandum setting out its own views of what should be done, just a few days before a scheduled conference on its problems sponsored by the powerful Italian Communist Party.

The document urges a coherent national policy to stimulate the car industry, increased research spending, and better labour relations to improve productivity.

A deal between Alfa and Nissan for a joint assembly plant, producing 50,000 or 60,000 vehicles a year, could in practice mean the end of Italy's severe curbs on Japanese car imports. These are limited to 1,200 units a year, less than 0.1 per cent of the domestic car market.

Panda model is launched

BY STUART MARSHALL

FIAT YESTERDAY launched in Turin its new Panda, a car which the group expects to be as successful and important to its future as the 127—for many years the top-selling individual model in Europe.

The Panda, a "cheap to make, cheap to run" vehicle fits in between the 127 family saloon and the 126 mini-sized city car and uses mechanical components from both as well as the larger Ritmo hatchback.

Fiat has planned the Panda to appeal to young people and especially the parents of young families. Although only a little over 11 feet long it will carry up to five adults and their luggage. The hammock-type seats can be adjusted in seven ways to convert the interior into a double bed or allow the Panda to be used as a load-carrier.

A cheap-to-make body, styled by Ital Design, is made up of simple panels and all the glass is flat.

The Panda will compete with the Renault 4 and Citroen Dyane and Visa models but it uses a three-door body instead of five doors like its rivals to keep the price down.

Swiss watch industry hit by 6% sales drop

By John Wicks in Zurich

EXPORTS by the Swiss watch industry declined in value terms by 6 per cent last year to SwFr 2.72bn (£729m), following a slight rise of 1.6 per cent in the previous year.

Sales to all continents were down on 1978 levels, though exports to European markets dropped by only 1.6 per cent. Those to the U.S., traditionally the biggest single national market for Swiss watches and movements, dropped by as much as 16.6 per cent over the year.

The fall in export value was due to a marked decrease in the sales of mechanical watches and movements. Exports of anchor products fell by 12.6 per cent to SwFr 1.82bn of the overall total, and those of the cheap, pin-lever models slumped by one-third to only SwFr 176m.

In the Swiss machine-building and metals industry sector, orders rose by 5.5 per cent last year.

A survey conducted among 200 member companies of the National Association of Machine Building Industries showed a total sales value of SwFr 14bn as being still well below the 1974 figure of SwFr 15.5bn. However, total turnover for the 200 companies in 1979 was higher by only 0.3 per cent than in 1978 at SwFr 13.7bn.

Export orders recovered slightly over 1978 but, at SwFr 8.7bn, were still 5.5 per cent below the 1977 level.

UK wool textile sales rise despite loss of Iran market

BY RHYS DAVID

BRITAIN'S wool textile industry achieved record export earnings again in 1979 with sales of £408.9m—a £6m increase on the previous year.

The increase has come in spite of difficult trading conditions in a number of markets as a result of weak demand and strong competition from other suppliers. The past year has also seen the virtual disappearance of Iran as the industry's biggest individual market for worsted cloth in the previous year. As a result of a major order for uniform cloths Iran purchased 3.4m square metres of UK worsted fabric in 1978, but this was down to 276,000 square metres in 1979.

The fall in shipments to Iran was mainly responsible for a reduction in overseas sales of worsteds from 19.5m to 16.6m square metres, but there was a modest rise in sales of woollen cloth from 23.4m to 26.6m square metres.

Yarn exports, at £77m, were up by £5m over 1978, increasing 2 per cent in volume, but earnings from tops (combed wool) at £51.9m were down slightly in volume and value.

Significantly Britain is now a growing exporter of raw wool—an indication of the growth of the wool textile industry around the world—with sales last year at £9.5m, up 20 per cent in volume and value.

In volume terms exports of woollens rose fractionally last year to 28.6m square metres compared with 28.4m square metres the previous year. Exports to Western Europe rose to 12.4m square metres from 10.9m, and were up to 4.1m square metres to the Far East from 3.8m. Sales to the Middle East declined to 3.3m from 4.9m, while those from North America slipped to 5.6m from 5.9m.

Exports of worsteds declined to 16.6m square metres for the year from 19.5m the previous year, with the Middle East *being particularly affected* with a sharp drop to 3.7m from 8.1m. Small increases were registered in Western Europe, where exports rose to 4.7m from 4.5m, the Far East 4.9m from 4.2m, and North America to 1.8m from 1.4m.

The industry's performance in export markets has provided an element of stability at a time when sales in the domestic market have been badly hit.

© The International Wool Secretariat (IWS) is to allow the Woolblendmark, its trade mark for wool-rich blends, to appear on a wider range of products.

Italy takes more Venezuelan oil

BY OUR ROME CORRESPONDENT

ENI, THE Italian State energy group, has signed an agreement to lift oil imports from Venezuela to 2m tonnes this year, four times the level of 1979. In subsequent years Italy's direct imports from Venezuela could rise further, to 5m tonnes or even 10m tonnes.

The deal was finalised in Caracas between AGIP, the oil subsidiary of ENI, and two state-owned Venezuelan companies, Corpoven and Maraven.

The extra imports will cover a large slice of the 5m tonnes per year contract concluded by ENI with Saudi Arabia, but later suspended.

The Venezuelan deal is geared to current world market prices, and, it was made clear, contains no "commission" elements. The oil that Italy is to receive will also be of a higher quality than the exclusively heavy crude previously shipped from Venezuela.

Running parallel to the new accord is an outline agreement to boost Italian exports of technology, to be primarily channelled through medium- and smaller-sized companies. This latter was drawn up during a visit late last year to Caracas by Sig. Nino Andreatta, the Budgel Minister.

R-R opts out of icebreaker

BY MICHAEL DONNE, AEROSPACE CORRESPONDENT

A SMALL group of companies, headed by Rolls-Royce, has decided not to bid for a contract to help build a nuclear-powered Canadian ice-breaking vessel, on the grounds of lack of commercial benefits from such a venture, Rolls-Royce explained that better opportunities existed elsewhere.

The Canadian Government had asked commercial groups to submit proposals by January 31. The cost of the venture was set at over $400m.

Rolls-Royce, leading a group of UK and Canadian companies, including members of the Vickers and GEC groups, had drawn up their response and were ready to submit it by the deadline.

This left only one group interested — Alsthom - Canalom, a partnership of Alsthom-Atlantique of France and Canatom, the Canadian nuclear power contractors.

Reynolds Aluminium in $400m Philippine project

BY OUR MANILA CORRESPONDENT

THE PHILIPPINE Government, through the Board of Investments (BOI), is scheduled to sign an agreement this week with Reynolds Aluminum of the U.S. on their proposed joint venture for aluminium smelting.

Although no details are yet available from either side unofficial reports indicate that the project will cost around $400m and equity sharing will be on a 50-50 basis. The smelter will be located in Isabel, Southern Leyte island, east central Philippines.

When Reynolds first proposed a Philippine aluminium project some five years ago the estimated cost was between $150m and $300m. The upward revision to $400m would make allowance not only for cost escalation, but also for an increase in smelting capacity desired by the BOI.

If Reynolds comes in, it will be making the first big investment by a U.S. company since Ford Motor Company invested $50m in its car body pressing plant in Zambales, north west of Manila, six years ago. While the U.S. remains the biggest foreign investor in the Philippines, most of the new capital inflow has come from Japan.

Indo-Soviet ore talks

BY OUR NEW DELHI CORRESPONDENT

THE SOVIET UNION is negotiating a long term agreement with India to import low grade iron ore. This would be the first time that the Soviets have bought iron ore from India.

Talks are in progress between a three-member Soviet delegation and officials of the Government-owned Minerals Trading Corporation for the initial import of 3m tonnes of ore. This agreement is expected to be signed shortly for shipment before the end of May.

The Soviet team has made it known that it would like to enter into a long term contract with India. The Soviets find low grade Indian iron ore more economical for blending, since its iron content of only 61 per cent blends better than high grade ore with an iron content of 69 per cent. India has an abundant supply of low grade ore in Karnataka state where it can export from Karwar, a minor port.

BA Rhodesia-Kenya link

BY TONY HAWKINS IN SALISBURY

BRITISH AIRWAYS has announced that full traffic rights are now available on the airline's services between Salisbury and Nairobi. This means that passengers wishing to travel between the two cities no longer have to fly via Johannesbur.

A company official said that the direct link between Salisbury and Nairobi would facilitate trade links not only between Rhodesia and East Africa, but also via Nairobi to Karachi and Bombay. At present there are two round trip British Airways flights per week in each direction to and from London and Johannesburg, with on route stopovers in Nairobi and Salisbury.

World Economic Indicators

TRADE STATISTICS

		Jan. '80	Dec. '79	Nov. '79	Jan. '79
UK £bn	Exports	3.88	3.77	3.76	2.81
	Imports	4.23	4.02	3.83	2.93
	Balance	−0.35	−0.25	−0.07	−0.12
		Dec. '79	Nov. '79	Oct. '79	Dec. '78
Holland Fls. bn.	Exports	10.774	12.124	12.184	8.943
	Imports	12.370	12.796	13.016	9.587
	Balance	−1.596	−0.672	−0.832	−0.644
W. Gar. DM bn.	Exports	26.515	28.70	29.95	25.02
	Imports	25.729	27.20	28.15	21.19
	Balance	+0.786	+1.50	+1.80	+3.83
France Frs. bn.	Exports	38.886	37.692	37.427	30.543
	Imports	39.664	38.975	40.296	31.414
	Balance	−0.778	−1.283	−2.869	−0.871
Japan $ bn.	Exports	10.870	8.385	8.729	9.539
	Imports	9.940	9.587	9.089	6.966
	Balance	+0.930	−1.202	−0.360	+2.573
U.S. $ bn.	Exports	16.792	17.004	16.838	13.140
	Imports	19.870	18.422	18.856	15.188
	Balance	−3.078	−1.418	−2.018	−2.070
		Nov. '79	Oct. '79	Sept. '79	Nov. '78
Italy Lira bn.	Exports	5,223	5,758	4,927	4,607
	Imports	6,681	5,748	5,348	4,372
	Balance	−1,458	+10	−421	+235
		Sept. '79	Aug. '79	July '79	Sept. '78
Belgium Frs. bn.	Exports	135.0	120.3	123.1	120.0
	Imports	133.1	142.4	126.3	120.7
	Balance	+1.9	−22.1	−3.2	−0.7

Inquiry into nuclear waste drilling opens

BY RAY PERMAN, SCOTTISH CORRESPONDENT

STRONG OPPOSITION from environmeotal groups is expected tomorrow wben the first public inquiry opens in Ayr, into the researcb programme on the disposal of ouclear waste.

Rallies and demonstrations were held over the weekeod in South Ayrshire and Galloway by Friends of the Earth, other anti-ouclear groups and the Scottish Natiooal Party.

The inquiry is into Kyle and Carrick District Council's refusal to allow the UK Atomic Energy Authority planning permission to drilling test boreholes near Loch Doon.

If permission were granted, the work would be carried out by the Institute of Geological Sciences, which is undertaking research in the UK for the European Commission.

One borebole has already been sunk in Caithness, where the local council granted consent, but two other public inquiries are pending in Northumberland.

Other sitee for drilling bave also bean identified oo the mainland of Britain and in the Western Isles.

Anti-nuclear campaigners see tomorrow's inquiry as an integral part of the ouclear energy debate. Mr. George Foulkes, Labour MP for South Ayrshire, who put down a Commons motion on waste disposal in December, yesterdey said: "The future of the whole UK nuclear energy programme depends on finding e safa method of waste disposal."

Protest groups have failed to persuade the Government to institute en inquiry commission, wbich would be abla to review all the factors surrounding the disposal of spent nuclear fuel.

Instead, tha terms of the inquiry will be strictly limited to the application to drill boreboles and to site six small portable buildings, or caravans, to accommodate the drilling crew and equipmeot, although witnesses for tha council and eovironmental groups will try to widen tbe discussion.

The Governmeot and the Atomic Energy Authority maintain that the research programme is merely to test the properties of the rock in the area and thet any proposal to deposit radioactive waste or build the necessary engineering works would require fresh planning applications and probably further inquiries.

Several methods of waste disposal ere being studied. They include combioing the waste with molten glass and buryiog it in rock, salt or clay, and dumping it on or beneath the ocean floor. The Government bas seid thet the research findings will be publisbed.

The authority said the problem was unlikely to become urgent for the next 20 to 30 years.

"Our application is simply to find out some of the facts so thet a sensible decision can be takeo. If the application is allowed and drilling takes place, it could well be found that not only was the rock at Loch Doon unsuitable but that disposal in rock anywhere was unsuitable," it said.

"But it would be misleading to say that if Loch Doon was found to be highly suitable then at some tima in the future a further planning applicatian might not be made to censtruct a demonstration nuclear disposal plant."

Ports plan may lift coal import capacity to 15m tonnes

BY MARTIN DICKSON, ENERGY CORRESPONDENT

A POTENTIALLY controversial plan to invest in new deep-water port fecilities to handle 10m tonnes of imported coal a year is being considered by the Central Electricity Generating Board.

The plan, if implemented, would raise Britain'e coal import capacity from about 5m tonnes to 15m tonnes a year.

The plan is at outline stage and no decision is imminent. However, it may be discussed this year by the board's executive and a more detailed appraisal could follow.

Although board officials say facilities would be designed "primarily" to guard against a shortfall of British coal, a decisioo to proceed could provoke opposition from miners and Labour politicians.

The board imports about 2.5m tonnes a year, compared with the 75m-77m tonnes it expects to buy from the National Coal Board. Imports could rise to about 5m tonnes during the next few years, depending on availability and price of British coal relative to power damand.

But lack of edequate port facailities makes it difficult for the CEGB to import more than 5m tonnes. Under the existing, inefficient system, steam-coal bound for the UK bas to be transhipped into small vessels et Rotterdam.

Under tha new plan the CEGB would invest in handling facilities at ooe or two deep-water ports in Britain. It could, then, offload vessels of more than 80,000 tonnes deadweight. These could include bulk coal-carriers being built by some major oil compaines.

Potential sites are Killingholme, near Grimsby, where the NCB already has deep-water facilities, Bristol and Birkenhead.

The idea is that new facilities would replace, rather than supplement, the existing system. But in an emergency, revival of the Rotterdam link would give the CEGB an import capacity of 15m tonnes.

Since coal imports of 10m-15m tonnes would almost certainly prove unacceptabla to a Labour Government, the plan may never get off the drawing-board.

Other factors the CEGB will consider include price and availability of British coal compared with imports.

At present, imported Australian coal enjoys a 20 per cent delivered — price advantage over British ceal at Thameside from coalfields. But it does not beve this advantage at stetions close to mines. There is also widespread expectation that imported coals will become relatively more expensive during the next 10 to 20 years, as world demand grows.

BP £8m chemical plant for Hull

By Sue Cameron, Chemicals Correspondent

BP CHEMICALS is planning to build an £8m hydrocarbon recovery plant at its Hull site on Humberside in an attempt to save some 30,000 tonnes a year of naphtha—the oil-based feedstock that is vital to the petrochemical industry.

The company will formally apply for planning permission for the new plant later this week. It estimates that it will be able to recover 5 per cent of the total amount of feedstock used at Hull.

The recovery plant, which will be supplied with equipment by Davy Bamag of Germany, is part of BP Chemicals' overall energy saving programme. The extra naphtha it will provide will be particularly welcome following recent steep increases in feedstock prices.

The contract price of naphtha jumped 25 per cent from about $300 a tonne to around $375 a tonne at the start of this year. But during the present quarter naphtha prices on the spot market have started to fall. At the beginning of January they were hovering around $400 a tonne but they have now fallen to about $345 a tonne—a drop of over 12 per cent.

Most major chemical companies expect contract naphtha prices to drop slightly in the second quarter in line with the new, lower level of spot prices. But even a substantial decrease would still leave contract prices at twice the level of 18 months ago.

Many of the big chemical companies have complained that they have been forced to carry an unfair burden from the increases in naphtha prices that have followed the upsurge in crude oil prices.

Tories concerned about their image

BY ELINOR GOODMAN

MR. ANGUS MAUDE, Paymaster General and Minister responsible for co-ordinating Government communications, is likely to face a critical audience of Tory backbenchers on Wednesday, when he addresses the party's media committee on communicating Government policy.

Conservative backbeocbers are traditionally loth to criticise their Ministers publicly, but there is widespread concern among many that the Government is failing to get its message across. This feeling is shared by other groups within the party, and was in evidence at the Young Conservatives' Conference at Scarborough at the weekend.

Bank

In the view of some Tories the Government would be even more unpopular but for the inability of Labour to mount a proper opposition. Judging by recent speeches from some Conservatives, the Tories may step up their attempt to deflect attention from their problems by attacking Mr. James Callagban's leadership of the Labour Party.

Mr. Callaghan, however, is expected to attack the Government's total inability to handle the industrial situation when he appears tonight on BBC-TV's Panorama. Mrs. Margaret Thatcher will appear on the same programme next week.

Complaints about the way the Government is failing to get its message across reached a pitch last month with the announcement of the gas price rise. Since then, some Tory MPs bave been deluged with letters from constituents, worried that their local post office may have to be closed because of the Government's apparent wish to stop paying social security benefits through post offices.

There is no question of the Government forcing anyone to receive benefit through a bank account rather than post office, but some back benchers are worried that the Government has let the story run without doing enough to put the record straight.

Mr. Patrick Jenkin, the Social Services Secretary, is to address a special joint meeting of the back bench social services and agricultural committees in an attempt to stave off a possible rebellion on tomorrow night's vote on the payment of social security benefits through post offices.

More than 80 Conservative back benchers have signed various motions, urging the Government not to jeopardise the existence of Britain's 22,000 sub-post offices by taking away social security business.

Fewer applicants for Lloyd's membership

BY JOHN MOORE

THE MUCH publicised problems of Lloyd's of London—the insurance market backed by private wealth—are deterring potential new members from joining the market.

Mr. Ephreim Margulies, chairman of S. end W. Berisford, the commodity trader with Lloyd's insurance broking and underwriting agency interests, says in the group's annual report that "the recent adverse publicity concerning Lloyd's, coupled with the difficulty of securing places on proveo syndicates, has curtailed the flow of oew 'names' being put forward for membersbip."

Berisford's observations are mede es membership growth for the whole Lloyd's market is showing e marked slowdowo. Last year total Lloyd's membership was 17,278, e rise of 3,187 on the previous year. But this year membership stands at about 18,500.

Two years ago Lloyd's was concerned about the rapid growth in membership because the increase in insurance business had not kept pace with the expansion of Lloyd's. At one stage it had been thought that controls might be oecessary to limit the flow of new members to the market.

Because of scendels, underwriting agents—the specialists who manage the Lloyd's members' affairs—have been attempting to ensure that new members join underwriting syndicates, the units into whicb ell members are grouped, have a proven track record of sound management and good underwriting results.

Berisford Report Page 12

CBI calls for simpler rules on building

By James McDonald

THE SYSTEM of building controls has become "far too complicated, too onerous and unwieldly," the Confederation of British Industry says today. It calls for simplification of the system, with building regulations reformulated to separate technical and legal requirements.

Moreover, adds the CBI, the system should be made uniform as far as practicabla througbout Britain. "This would help firms which have to take into account four different sets of requirements, depending on wbether they are building in England and Wales, Northern Ireland, Scotland or Inner London."

The CBI supports fully the Government's plan to "take a radical look at the way in which bureaucratic institutions effect our industrial and economic performance." But it feels that insufficient time has been allowed for consultation.

Haughey Irish unity plea unacceptable

BY STEWART DALBY IN DUBLIN

THERE IS no immediate prospect of the British Government accepting the weekend appeal by Mr. Charles Haughey, the Irish Prime Minister, for it to encourage the unity of Ireland.

The Government's position is thet Northern Ireland should remain part of the union with Britain for as long as the majority of its people want. The 1m Protestants are predominantly Unionist, while the 500,000 Cetholics either favour links with the Republic or a form of power-sharing government which will protect their minority rights.

Northern Ireland Office officials yesterday said questions of Irish unity are outside the terms of reference of the Province's constitutional conference, which resumes today. However, Mr. John Hume, Social Democratic and Labour Party leader and chief Catholic representative at the main confereoce, is holding separate talks with Mr. Humphrey Atkins, Northern Ireland Secretary, about questions like the Irish dimension and cross-border security.

In his first major speech on Northern Ireland since becoming Prime Minister last December, Mr. Haughey told the annual conference of his ruling Fianna Fail Party: "In my view a declaration by the British Government of the interest in encouraging the unity of Ireland by agreement and in peace, would open the way toward an entirely new situation in which peace, real lasting peace, would become an attainable reality."

Vexed

● Mr. Haughey also indicated that he would attempt to deal with the vexed question of Irish taxation. Ireland's 700,000 workers on Pay As You Earn account for 88 per cent of revenues from direct taxation, while the country's 180,000 farmers pay less than 5 per cent. This has led to demonstrations and threatened strikes.

Mr. Haughey said: "Everybody knows that our taxation system as it now stands, is not a model of equity or justice.

"The time is ripe, I believe, for a complete overhaul of the whole taxation system." But be said nobody should expect a miracle overnight.

Scientists near success with fuel process

By Maurice Samuelson

A MAJOR step towards developing a oew fuel, a mixture of oil and coal, has beeo achieved by scientists at British Petroleum's research centre at Sunbury on Thames.

Known as COD (short for "coal, oil dispersions"), it has long beeo recognised as a way of making oil last longer and coal easier to handle.

However, according to Sunbury's chief scientist, Professor Jack Cadogan, it is only recently that a way bas been found of stabilising COD, consisting of up to 40 per cent powdered coal and 60 per cent oil. Until now, he says, the difficulty had been to prevent the two ingredients from separating.

Professor Cadogan gave the news during the unveiling of Sunbury's largest piece of research equipment, a 70-feet-high furnace for testing burners used in refineries.

BP's 13 refineries account for 40 per cent of the group's total energy bill, which may reach £1bn this year.

BP spends £65m a year on research. Half of it is spent at Sunbury, which bas a staff of 1,400.

Taylor facing hard task in by-election

BY RICHARD EVANS, LOBBY EDITOR

MR. TEDDY TAYLOR, strongly tipped to be a member of Mr. Margaret Thatcher's Cabinet before his surprise defeat in the May general election, has taken a first step towards a political comeback by being chosen as prospective Conservative candidate in the forthcoming by-election at Southend East. He will be adopted officially tonight.

The by-election, caused by the death in December of Sir Stephen McAdden, is by oo means a certainty for the Conservatives, although Southend East is normally regarded as a safe seat. Sir Stephen, who held Southend East from 1950, had a majority of 10,774 at the general election.

But in view of the growing electoral unpopularity of the Government and economic and industrial uncertainties, there seems likely to be a slump in the Conservative vote.

Mr. Taylor's advantages are his right-wing pugnaciousness and his proven record as shadow Scottish Secretary, but he is an outsider brought in at short notice and be will be fighting against two local candidates, Mr. Colin George for Labour and Mr. David Evans for the Liberals.

The writ for the by-election is expected to be moved at the end of this week so that voting can take place before the Budget on March 26.

MP seeks inquiry into £2m Welsh funds deal

BY ROBIN REEVES, WELSH CORRESPONDENT

MR. MICHAEL GRYLLS, Conservative MP for N.E. Surrey, is demanding a full inquiry into how the Welsh Development Agency came to put £2m into F. Leiner and Sons, the gelatine manufacturer, which called Receivers in on Wednesday.

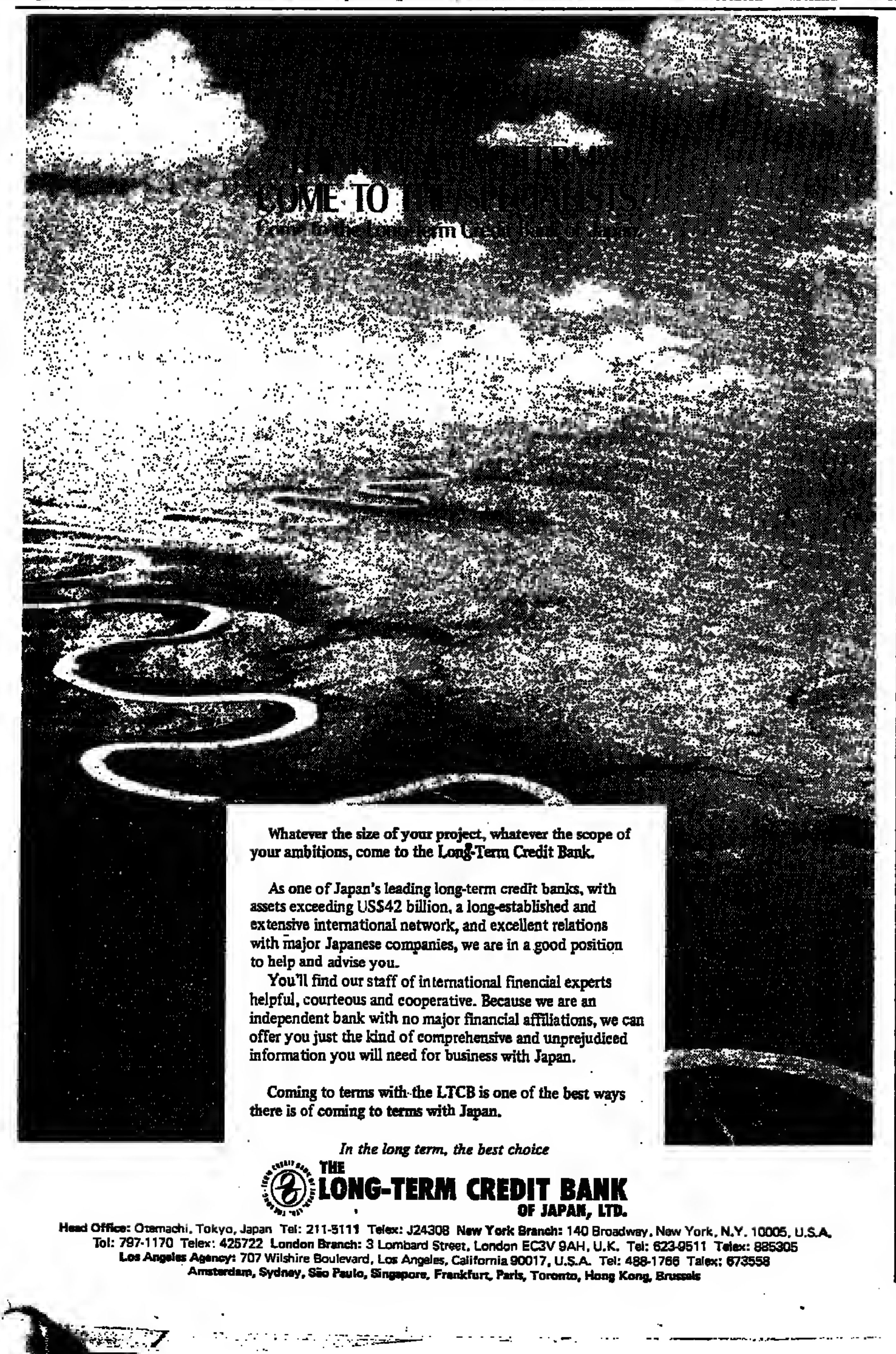
The Receivers were called in only a year after the agency invested in the company, one of the world's leading gelatine manufacturers. Its £2m shares purchase is the agency's biggest financial stake in e single Welsh company.

The inquiry call has come amid claims that the public funds at risk may be well in excess of the £3m already revealed. Beside the £2m capital injection, the South Wales-based company also owed more than £1m to the agency as landlord of its factory premises on the Treforest industrial estate.

Mr. Grylls plans to ask Mr. Joel Barnett, chairman of the Commons Public Accounts Committee, to institute an inquiry by the Comptroller and Auditor General.

Strengthening the inquiry demand is the fact that shortly after the agency's £2m shares purchase was announced last February, Mr. Jack Loveland, its investment director, left to become Leiner's chief executive.

But the ageocy has emphasised that immediately Mr. Loveland had been approached by Leiner's chairmen be took no further part in the negotiations.



FT SURVEY OF CONSUMER CONFIDENCE

Rising prices deepen the gloom

BY DAVID CHURCHILL, CONSUMER AFFAIRS CORRESPONDENT

THE LEVEL of consumer confidence has now reached an all-time low, according to the latest Financial Times survey of consumer confidence published today.

The February index of consumer confidence has fallen by a further 5 per centage points to reach minus 46 per cent, the lowest monthly figure in the 10-year history of the survey.

In February, some 55 per cent of the adults surveyed felt that conditions in future would worsen — an increase of 2 per cent over last month.

But the proportion feeling that cooditions would improve drops from 12 per cent in January to only 9 per cent in February.

The six-monthly index, which reflects the trend in confidence over the past half-year, has also fallen to its lowest-ever level of minus 38 per cent.

The last time the index of consumer confidence was as low was during the 1975 economic crisis. Even at the height of last winter's industrial unrest, the monthly index only reached minus 27 per cent, compared with its preseot level of minus 46 per cent.

The main reason for pessimism was rising prices, which rose sharply as a factor in this month's survey. Some 45 per cent of pessimistic consumers gave this as their main reason, compared with only 35 per cent last month.

With the steel strike still continuing, industrial disputes were also increasingly given as a reason for pessimism. This was cited by 23 per cent of the pessimists, compared with 18 per cent last month.

Only slightly less, 22 per cent, felt that the Government's economic policies were wrong and were the main reason to blame for the loss of confidence.

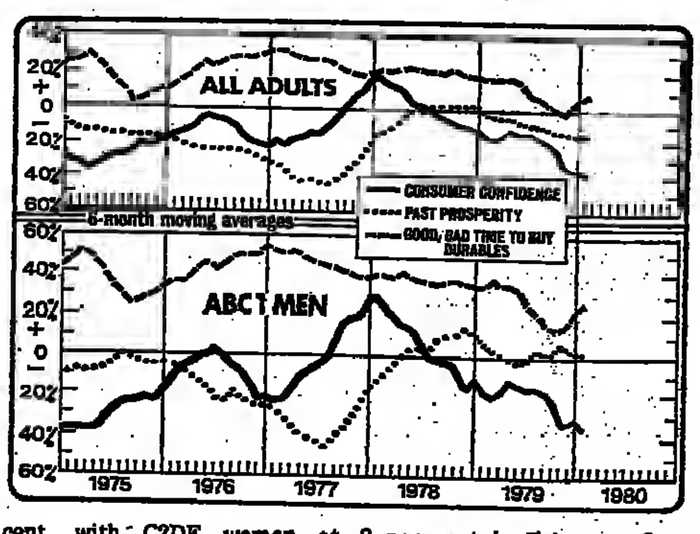
Unemployment bas not emerged as a major reason for gloom, cited by only 13 per cent this month compared with 14 per cent last month.

Analysis of the survey, however, clearly shows that inflation, strikes and Government policies are now being identified by consumers as the reasons for pessimism. Those consumers commenting that the "trend is to get worse" dropped from 21 per cent in January to 11 per cent this month.

The 9 per cent of those in the survey who were optimistic about the future represented the lowest-ever total of optimists. Over half this small sample were able to give only the rather nebulous reasoo that "things must improve" as grounds for their optimism.

A further quarter also remained loyal to the Government and believed that the right economic policies were being adopted and were therefore grounds for optimism.

Analysis of the survey shows that ABC1 men (professional and executive) sharply lost confidence this month. The index for ABC1 men dropped by 14 points to reach minus 47 per cent, about the same as for C2DE men (manual workers). The most optimistic group were ABC1 women at minus 35 per cent, with C2DE women at minus 48 per cent.



The index showing how people felt in relation to a year ago also showed a sharp fall in February. The index of past prosperity fell from minus 16 per cent to minus 24 per cent, its lowest level since September 1977. Some 20 per cent of those surveyed felt they were better off than a year ago (compared with 24 per cent in January), while 44 per cent thought they were worse off (40 per cent in January).

The low level of future confidence and past prosperity, however, appears to have encouraged people to buy rather than wait until prices rise even further.

The index showing consumers' readiness to buy large consumer durables stood at plus 8 per cent in February. Some 42 per cent thought it a good time to buy, while 34 per cent felt it was a bad time. Although tbis is down 5 points on last month's figure, it is still higher than expected. The January figure was higher than normal because of the sales.

The unemployment index showed a sharp increase this month. Some 53 per cent expected unemployment to increase, while only 9 per ceot expected it to fall. This gave an unemployment index of plus 44 per cent, compared with 34 per cent last month.

The Financial Times survey of consumer confidence was carried out between January 31 and February 8 by the British Market Research Bureau. A sample of 1,004 adults was interviewed.

Grim outlook for engineering

BY HAZEL DUFFY, INDUSTRIAL CORRESPONDENT

A GLOOMY short-term outlook for mechanical engineering is forecast in the latest report of the industry's Short Term Trends Working Party.

The reports of the Working Party—composed of representatives from member firms of the Engineering Employers' Federation, trade unions and Government officials—are published four times a year.

The latest reflects a deterioration in the outlook for the industry over the past three months, mainly because of the oil price increases following the Organisation of Petroleum Exporting Countries meeting in Caracas, the large rise in UK interest rates and mounting evidence that the UK economy has already begun to move into recession.

The working party warns that the situation may worsen further by the time the next report is published in April, as a result both of the effects of the steel strike and the worsening relations between the West and the Soviet Union.

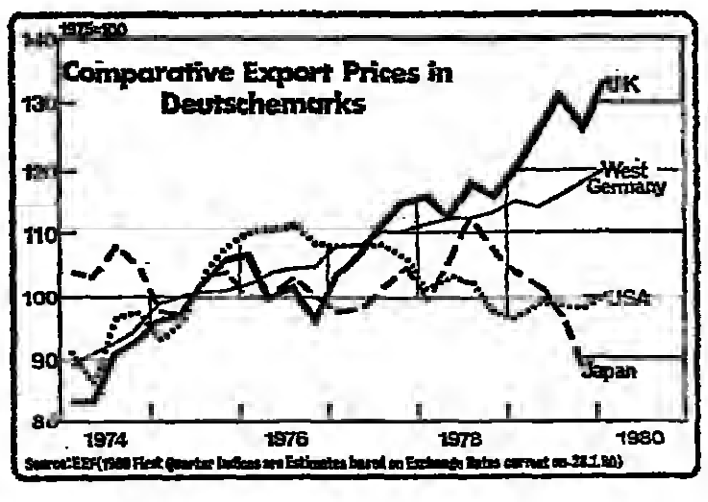
The steel strike has been almost ignored in the current report, which was compiled last month, while the forecast also assumed that trade relations with Warsaw Pact countries would not significantly affect engineering products.

Total sales in the industry are forecast to decline by 11 per cent this year and net new orders by 10 per cent. Home market orders and sales are expected to be much lower than in 1979 because of the decline of production volumes in many sectors of manufacturing industry and, in particular, the very low level of investment expected.

Export orders and sales are also expected to drop because of the strength of sterling, rising domestic cost pressures, and slow growth of overseas markets.

By 1981, orders from the home market may not decline as much because some of the investment projects cut back in 1980 will eventually become essential. The forecast has not taken into account the Government nuclear power programme, which will not affect the mechanical engineering industry until beyond mid-1981.

The decline in export sales and orders is also tentatively forecast to slow down in 1981, depending on the level of inflation in the UK and the ability of the world to cope with oil supply problems.



Source: EEF (1980 First Quarter Indices are Estimates based on Exchange Rates current on 28.1.80)

The report graphically illustrates the growing price disadvantage suffered by UK firms in international markets over the past two years as the pound strengthened and inflation jumped. It points out that, while price is not the only factor affecting international competitiveness — design, performance, delivery, reliability and customer service may be of equal or greater importance to the customer.

The trade balance in engineering products for 1979 will show a substantial deterioration in real terms over 1978 after taking inflation into account. In the first 11 months of 1979, exports amounted to £5.105bn, and imports to £3.104bn, giving a positive trade balance of £2.001bn. For 1978, as a whole, the balance has been £2.150bn. The report says the deterioration is serious for the whole economy since mechanical engineering products provide the major part of the nation's overall trade surplus in manufactured goods.

Short Term Trends, Feb. 1980. Engineering Employers' Federation.

ASTMS plea on ban to Sir Keith

By Hazel Duffy, Industrial Correspondent

MR. ROGER LYONS, a national officer at the Association of Scientific, Technical and Managerial Staffs, will today raise the subject of what he considers could be a conflict of interest between Albright and Wilson and its American owner, Tenneco, on national export policies.

A day-long meeting of the petrochemicals sector working party is scheduled for today, at which Mr. Lyons says he will seek to initiate discussion on the relationship between multinational owned sectors of the UK chemical industry and the aims of the National Economic Development Office's promotion of export growth.

Mr. Lyons says Tenneco already restricts the freedom of A & W to trade with Cuba, unless it has a licence from the U.S. Treasury, while trading with Vietnam, Cambodia and Laos is prohibited. There are fears among some marketing managers at Bush Boake Allen, a division of A & W, that the restrictions will be extended.

Mr. Lyons has asked Sir Keith Joseph, Industry Secretary, to intervene in the dispute between the marketing managers, who are members of ASTMS, and Tenneco.

Whitehall 'failing disabled over quota of jobs'

BY OUR LABOUR STAFF

DISABLED WORKERS are suffering a disproportionate share of long-term unemployment because of consistent Government failures to enforce the 3 per cent employment quota for the registered disabled, says a Low Pay Unit report published today.

The report, an Unfair Quota, which is the unit's response to the Manpower Services Commission's discussion document on the quota system, says the failure of the Government itself to observe the quota has been an important contributory factor.

The unit, which is concerned that the present Government might abandon even the "minimal protection" of the quota system, says that between 1960 and 1978 the number of employers failing to meet the quota rose from just over 38 per cent to more than 63 per cent.

Last year, only one Government department—the Stationery Office which is the smallest—fulfilled its 3 per cent quota, the report says.

During the same 12 months, none of the nationalised industries, nor the 15 electricity boards and 10 regional water authorities, filled their quotas.

The report claims that last year not one county council and only one district council in six fulfilled the quota. All area health authorities and Scottish health boards similarly failed.

The unemployment rate among registered disabled workers is 12 per cent, more than double the rate for the workforce as a whole. More than half of the registered disabled unemployed have been without work for more than a year, the report says.

Mr. Frank Field, MP, the report's author, argues that it would be difficult to find any other area of Government responsibility where public bodies are so clearly and openly failing to fulfil their legal duties.

The unit proposes a number of changes to improve the position including a quota system which increases with company size, a two-year deadline for bringing the disabled employment level down to the rate for the rest of the population, much greater Government commitment to reach quotas in its own departments and a proper enforcement policy.

Sealink pay row halts ferries

BRITISH RAIL'S Sealink ferry services from Harwich were hit yesterday by the first of a series of 48-hour stoppages by officers over pay and conditions.

Around 180 officers—members of the Merchant Navy and Airline Officers Association—took part. They said that seven ships had been stopped.

The officers complained that they had put forward proposals last April but had had no reply from the management.

'Vindictive clamour'

THE Right-wing of the Tory Party was "clamouring" for further "vindictive measures," in addition to the Employment Bill, "to undermine trades unions' effectiveness in responding to the Government's divisive economic and industrial policies," Mr. Tony Christopher, Inland Revenue Staff Federation general secretary said in Durham at the weekend.

Teachers backed

THE NATIONAL Union of Teachers said yesterday it would support members in Rotherham, Yorkshire where the education authority has closed two schools. The NUT believes the authority has overreacted to action by the union aimed at improving staffing ratios.

Printing industry exports well down

BY JAMES McDONALD

THE TRADE surplus of the British printing and bookbinding machinery industry, virtually disappeared last year, the latest report by the industry's sector working party suggests.

"A number of factors have contributed to this decline, but during 1979 the high level of sterling and UK interest rates have particularly affected competitiveness of products which do not have marked technical or other product advantages and therefore depend greatly on keen pricing or credit terms," says the report.

A long-term increase in the industry's productivity is essential for the generating of sufficient funds for investment in new plant and product development, the report stresses.

The majority of the industry's products face severe price competition from abroad so it must "ensure that it does not enter into a spiral of increasing costs and prices, lower volumes, lower economies of scale and lower investment."

Britain's share of printing machinery exports by Organisation for Economic Co-operation and Development countries showed an increase in 1978, from 9.3 per cent to 10.1 per cent, after falling for many years. But the problems last year seem likely to have eroded this improvement.

Developments of advanced technologies, particularly micro-electronics and lasers, are having considerable impact on the industry, says the report.

With the lower rate of growth in industrialised countries, the report says the industry must increasingly turn to Third World markets if it is to maintain a high level of exports.

Business with developing nations is often dependent on Overseas Aid Funds, says the report, and suggests therefore, the Government should bear this in mind when formulating overseas aid policies.

Within the industry, performance by the main sectors varied considerably with some product groups declining and others expanding rapidly.

The typemaking and setting sector surpassed its target with a trade surplus estimated at £35.9m last year (£24.4m in 1978)—roughly equal to the total deficits in the other three main sectors: presses and ancillary—£15.2m, bookbinding—£7.7m, and paper converting—£12.8m.

Making "very tentative" forecasts up to 1984, the report sees a "very fast" rate of growth by the mainly electronic-based companies in typesetting, scanners and certain types of plate and cylinder processing machinery.

Printing and Bookbinding Machinery SWP, Progress Report 1980, National Economic Development Office, Millbank Tower, Millbank, London SW1.

Chambers of commerce increase membership

BY LORNE BARLING

CHAMBERS OF Commerce in the UK have substantially increased both their memberships and their incomes over the past three years, according to a survey of nearly 100 chambers throughout the country.

The survey, carried out on behalf of the British Chambers of Commerce Executives, showed that, during the three years to October 1 last year, overall membership has risen by 15 per cent and income grown by 65 per cent.

Besides the rise in subscription rates to keep abreast with inflation, there was evidence that chambers had introduced a wide range of revenue-earning services to boost income.

These included conferences and seminars, export documentation, commercial inquiry services, overseas selling missions, and market research. Significantly, much of the growth in these services and in chambers' membership came from the small- to medium-sized groups.

Mr. John Warburton, president of the BCCE, said that the overall growth was encouraging, while the increase in some memberships was surprisingly high.

Pensioners still top savers

By James McDonald

PENSIONERS were once again by far the biggest contributors to total National Savings receipts last month, with many taking advantage of their entitlement to an extra £500-worth of index-linked retirement certificates.

January's receipts for the Retirement Issue National Savings Certificate, at £147.3m, almost equalled the record of £150.6m in December when the maximum holding was raised from £700 to £1,200.

Total National Savings receipts in January were £390.7m and net new investments, after repayments of £221.9m, amounted to £168.8m. The figures include accrued interest.

The other index-linked security, Third Issue Save As You Earn, showed a net new investment last month of £9.5m, but there was a net outflow of £20m from fixed-interest National Savings Certificates.

Building and Civil Engineering

Awards to Halcrow in SE Asia

ENGINEERING, economic and environmental studies required to prepare master plans for the creation of two deep water harbours in southern Thailand are to be undertaken by a consortium of consultants led by Sir William Halcrow and Partners.

The proposed harbours are at Songkhla on the east coast and Phuket on the west coast. Other members of the consortium are Maunsell Consultants, London, and Sindhu Pulsirivong and Associates of Bangkok. The contract for this initial work is from the Harbour Department of the Ministry of Communications of the Kingdom of Thailand.

It is intended that the harbours will stimulate traditional raw material exports. In Songkhla, the harbour works are likely to take advantage of existing and proposed infrastructures while Phuket harbour will be sited outside the town adjacent to a tin smelter.

The U.S.$ 2.1m project is the subject of an Asian Development Bank loan, the remaining finance being provided by the Thai Government. Work will start at the beginning of March.

Halcrow has also signed a contract in Jakarta under which the Port Administrator of the Port of Belawan, on behalf of the Government of Indonesia, appoints Halcrow, working in Association with Cameron MacNamara of Brisbane and P. T. Biro Insinyur Exakta of Jakarta, to provide full consultancy services for the supervision of construction of facilities to be included in the phase 1 development of the port of Belawan.

The first of the contracts, valued at £8.3m has been awarded to the Saribro Group: Rinkai Construction of Japan, J. P. Broekhoven BV of the Netherlands and P. T. Sac-Nusantara, an Indonesian contractor. This initial contract calls for the dredging and disposal on land of 800,000 cubic metres of marine silt and the winning, transporting and placing of 3.5m cubic metres of river sand. Some 220,000 square metres of land are to be reclaimed for the new port.

Overall construction cost of the phase 1 development of the port is estimated at U.S.$100m at 1978 prices.

Offices at rail station

CONTRACT TO erect a six-storey office building at the new Milton Keynes railway station is valued at £7.8m and has been awarded to John Mowlem by the Development Corporation.

With a total area of about 19,600 square metres, the block will be a mainly speculative project except for part of the two lower floors which will be leased to British Rail for station services, including passenger concourse, booking halls, parcels depot and offices.

Designed by the Corporation's city centre team of architects, quantity surveyors and services engineers, the structure will be of reinforced concrete frame on piled foundations with curtain wall cladding.

Consulting engineers are (structural) Felix J. Samuely and Partners and (mechanical/electrical) the Bow Group.

Work has just started and the station will be operating by the end of 1981.

Two office blocks

TWO PROJECTS valued together at over £2.2m have gone to Sir Robert McAlpine and Sons for the building of office blocks.

One contract worth £1½m, has been awarded by the Sun Alliance and London Insurance Group for its new offices in Station Road, Swindon, and is scheduled for completion in mid-1981. The other is worth £1.1m, from Landmark Development Consultants, for the building of a three-storey office block in Park Cross Street, Leeds, also to be completed by the middle of 1981.

Rush & Tompkins busy

CONTRACTS worth over £2m have been awarded to the Rush and Tompkins Group.

Work starts today on a 13-week contract worth £536,000 at Debenhams' Croydon, Surrey, store. This involves the preparation necessary to divide the store in two from top to bottom so that the premises may be demolished and rebuilt half at a time. "It involves a lot of complex mechanical work isolating systems, rebuilding the staff canteen and the erection of a dividing wall," says the Group.

In Scotland a £625,000 factory extension for the Scottish Development Agency at Mosshill Industrial Estate, Ayr, has been started. This will provide extra capacity for Preswick Circuits.

The rest of the work is in the North East, where the largest of five contracts is for the fitting out of premises at Low Fell, Tyne and Wear, for Joshua Wilson and Brothers at a cost of £252,000.

Rush and Tompkins is also extending Wensleydale Creameries' premises at Hawes, North Yorkshire, to provide an enlarged process room, new cheese store, plant room and car park under a £212,000 contract, and has £125,000 worth of work covering improvements to radio-chemistry laboratories at Imperial Chemical Industries Agricultural / Petrochemical Division, Billingham, Cleveland.

For the Provincial Building Society in Middlesbrough an old property is being demolished and replaced by a three-storey office block under a £205,000 contract and the company has a £118,000 contract for alterations and fitting out of retail premises for Boots the Chemist at Billingham, Cleveland.

Supermarket work

MAIN CONTRACTOR involved in Fine Fare's largest superstore at Birchwood Shopping Area, Warrington, is Keda Construction which will be responsible for the general building works together with the finishing and fitting out of the store.

Total contract is valued at £1¾m and includes the construction of a petrol filling station.

The company is also involved in the erection and completion of an extension and internal alterations to the Cannon Street Health Centre, Bolton. This scheme is worth £114,300.

Awards to Lelliott

NUMBER OF contracts won in the last two weeks by John Lelliott total over £2.8m and include a £1.6m job to refurbish five floors into luxury apartments at Fountain House, Park Lane, London, W1, for AMK (Renovations).

A Grade One Listed Building at 1 Cornwall Terrace, overlooking Regents Park, is being renovated by the company at a cost of £457,000. This five storey building will be partially gutted, and new floors, walls, and lift shaft introduced. A new roof will also be formed, plus decoration and repair to external walls.

British Petroleum Pension Trust has awarded a contract to refurbish a building at 11-15 Farm Street, London, W1, and the final job (£540,000) is office accommodation at warehouse units at Oval Road, London, NW1, for Heron Estates and Management.

Active in N. Africa

TWO PROJECTS—a steel rolling mill in Morocco and highways in Libya—are being undertaken by the WS Atkins Group.

In Morocco, plans to build a large integrated steelworks at Nador for the state-owned Société Nationale de Sidérurgie (SONASID) is to go ahead following a feasibility study by Atkins in 1975.

In eastern Libya, Atkins is to supervise construction of two new highways costing £37m—20 km of mountainous road from Shahat to Sousse, and a 270 km desert highway from El Adem, just south of Tobruk, to Jagbub.

Other major projects on which WS Atkins Group are engaged in North Africa include a £500m extension to the El Hadjar steelworks in Algeria, the design and construction supervision for a teaching hospital and a university complex, together valued at over £100m, at Tlemcen, Algeria, and a fish farm in Egypt. Designs for over 300 km of desert roads from Sirt to Waddan, and linking Sadadah to Misurata, in central Libya have just been completed.

Howard gets overseas work

DEVELOPMENT OF a shipyard in Labuan, Sabah, East Malaysia, is to be undertaken by John Howard & Company International for Sabah Shipbuilding, Repairing and Engineering Sdn Bhd.

Costing about £8m, the works will include construction of 380 metres of wharf and two finger jetties each 140 metres long, heavy reinforced concrete foundations for plant, machinery and buildings, and miscellaneous works.

Some dredging work is to be carried out and a considerable amount of piling, both tubular and steel sheet, is involved in the construction. The consultants are T. D. Langbridge Associates Company Pte.

An associated company Howard Algeemi Construction Company, has been awarded a £1.5m contract by the Headquarters Engineering Corps of the United Arab Emirates armed forces.

The work involves construction of a steel sheet piled wharf and jetty, 550 metres long, at the naval sea wing in Abu Dhabi.

Construction will start in March and is scheduled for completion in nine months. Howard Algeemi has previously carried out two similar contracts, totalling £1.75m at the Abu Dhabi naval sea wing.

£5m work for Brims

LARGEST JOB in a batch of work worth £5m awarded to Brims and Company, is a £3m National Coal Board contract for the construction at Westmouth Colliery, Sunderland, of an amenities building to include pithead baths, a medical centre, offices, canteen and boiler house.

Three contracts worth a total of £1.2m have been received from the Property Services Agency for the building of an office block at Eaglescliffe, Stockton on Tees, and telephone exchanges at Hamble in Hampshire and at Hartlepool.

Also to be built are four nursery factories at Scotswood, Newcastle, worth over £200,000 for Tyne and Wear County Council. At North Shields, work has started on advance factories for North Tyneside Metropolitan Borough Council on a design and build project worth £400,000.

Also at North Shields, work has commenced on an extension to the car ferry passenger terminal building for the Port of Tyne Authority under a contract valued at about £200,000.

Refurbishing kitchens

CONTRACTED TO provide the latest in catering facilities for 4,500 Shell employees is Bovis Construction, management contractor for the £5.5m refurbishment of the kitchens and restaurants at Shell Centre, London, SE1.

Work will comprise the complete stripping out and refurbishment of the kitchens which are housed at basement level, and the restaurant areas on the ground floor.

The job includes new lift installations, provision of a conveyor system, complete re-equipment of kitchens and the installation of mechanical and engineering services.

The restaurant will be finished to a high standard with fitted carpets and an unusual stepped designed ceiling with a lightweight fibrous plaster finish. For easy clearance after meals, a conveyor system will transfer trays with dirty cutlery and crockery to the washing up areas in the kitchens below.

Weatherald wins £1¼m

A NUMBER of industrial projects with a total value of over £1¼m have been negotiated by Thomas Weatherald of Askrigg, North Yorkshire.

These include work for Mcalpy International, Tomado, A. C. Bamlett, W. F. Banks (Askrigg), Gelsdale Textile Industries and F. A. W. Engineering. All the buildings are to be constructed utilising the Butler pre-engineered building system designed by Butler International.

Company is also building an advance factory at Masham, Ripon, for English Industrial Estates Corporation. Architects are Elder Lester Associates, Yarm, Cleveland.

London jobs for Corrall

TWO CONTRACTS together worth £1.7m have been awarded to Corrall Construction by the London Boroughs of Camden, and Hammersmith and Fulham.

In West London, work worth £678,000 is for improvements, conversions and repairs to 24 three-storey Victorian terraced houses on the Hever Estate, Fulham, which is part of a continuing programme of modernisation of the whole estate.

Project in Camden is valued at about £1m and is for the modernisation and improvement of two blocks of flats (Brook and Cranleigh Houses) in London NW5.

John Laing award

A FIVE-STOREY office block is to be built on a site at King Street, Luton, under a contract worth about £1½m awarded to the south-eastern region of John Laing Construction.

Work has started for developers Maurice Robson and Co., and the building, due for completion next year, will be occupied by Midland Bank.

Orders for dredgers

OVER Fl100m worth of new dredger building orders have been won by IHC Holland during the first weeks of this year.

For the first time, IHC Holland will deliver a complete dredger to the United States. The order was received from a dredging company in California, which will use the bucket dredger for the extraction of sand and gravel.

Other orders are for a medium-sized trailing dredger for the Indonesian Ministry of Transport, for a split hopper type trailing dredger for Costain Blankevoort (UK) Dredging Co. and for the supply of standard cutter suction dredgers to several South American dredging contractors.

Contracts for Costain

REPAIRS TO the M5 Taunton By-pass will start at the earlier date of February 26 and should be completed before the main summer holiday rush, announces the Ministry of Transport, which has awarded the work (worth £1.3m) to Costain Civil Engineering.

The southbound carriageway will be closed while the work is in progress and a two lane contraflow operation will be set up on the northbound carriageway, allowing two lanes in each direction and using the hard shoulder.

Another job for the company, worth £272,629, is from the Kirklees Area Health Authority to build Slaithwaite Health Centre in Yorkshire.

Mechanical services

ALL MECHANICAL services for the third phase of the Watford General Hospital (Shrodalls Wing) are to be installed by the London mechanical services division of Haden Young.

Work on the £3¼m contract starts next June and is due to be completed in September, 1983.

The contract covers three new buildings: a boiler house (housing a complete boiler plant and incinerator); workshops; and general accommodation for the hospital's engineering staff.

Two other buildings comprise a new hospital ward block and a catering complex. The hospital block is on six levels and includes general wards and operating theatres. Mechanical services required include heating, ventilating, domestic services, hose-reels, dry-risers and medical gases. In addition, this block has a two-storey roof plant building.

IN BRIEF

● Trygon Build 1972 has won the latest French House contract, worth over £½m, to build 24 homes in the Normandie and Cameries styles at Hough, near Crewe, Cheshire.

● English Industrial Estates Corporation will provide extensions for Smith Bros. (Whitehaven) on the Salterbeck Estate, Workington, Cumbria. A contract worth about £665,300 has been awarded to Border Engineering Contractors of Whitehaven.

● New piling contracts worth nearly £600,000 have been won by Dowsett Piling and Foundations of Knaresborough, North Yorkshire.

Technical News

EDITED BY ARTHUR BENNETT AND TED SCHOETERS

● WELDING

Makes better gears

TECHNIQUES PIONEERED by Torvac in conjunction with a major customer are being used to reach previously unobtainable levels of quality and precision in the production of large gear essemblies.

The new techniques in electron beam welding have been developed by Torvac in conjunction with the Belgian subsidiary of the U.S.-based one of the leading manufacturers of transmissions for trucks and "off-highway" vehicles used in civil engineering, construction and materials-handling applications. Torvac has been processing over 300 gear assemblies per week, and has supplied a large electron-beam welder to Clark's plant in Belgium. An identical machine is being built for the Clark factory in Brazil for similar work.

Combining Torvac techniques and the electron gun used enables welds to be produced with much greater penetration depths (up to 30 mm) and to tighter tolerances at much lower voltage (60 kV) than those obtainable with previous electron beam welding methods.

This type of welding has previously been done with relatively slack tolerances, and the final assembly has been machined after welding to allow the required accuracy to be obtained.

With the Torvac approach, however, machining to close tolerances, and sometimes even heat treatment and grinding, can be carried out on the shaft before the gear is welded on. This is much more economical than working on the complete gear-and-shaft combination.

The machine built by Torvac for gear assembly work is a heavy-duty type incorporating a 60 kV, 8 kW electron gun and is fitted with a semi-automatic rotary loading system which ensures speedy and accurate positioning of components in the welding chamber.

An important point with the machine, particularly for work on assemblies requiring complex weld programmes, is programming by plug-in cards which can provide automatic operating sequences for preheat, tacking, welding and post-heating functions. The cards are set up or checked in a special typewriter-size unit in the production office before use.

Torvac believes that gear assembly is one of the big growth areas for electron-beam welding. The improved precision permitted by the technique results in smoother, quieter gears, more important now that factory noise levels are strictly controlled. Costs can also be reduced, with less material, easier machining of simpler components, and in some cases by heat treating before welding. Finally, the gearbox can be more compact, saving space and weight for lower fuel consumption.

Torvac, Histon, Cambs CB4 4HE. 0220 232646.

● INSTRUMENTS

Check on paper usage

CONSUMPTION OF board or paper used at printers and converters (or produced at paper mills) can be measured to within half of one per cent as it comes off the reel using a linear measuring unit developed by Vacumatic of Harwich, Essex (02555 3101).

An arm at about 45 degrees to the vertical, pivoted at its top end, carries a measuring wheel at the bottom and is kept in controlled contact with the near-vertical web of material. Counting of the wheel's rotation by electronics provides a reading of paper used on a light emitting diode display.

The contact wheel has an air bearing for free running and dust removal and its outer circumference is treated so that when it eventually wears, a colour change occurs.

Incorporated into the design is a device that will record exactly the length from each reel at the moment the automatic paster make a flying splice. This length remains displayed for later reference.

● POWER

Strengthening grip on market

IN A move intended to increase their joint share of the estimated £300m international market for battery based AC and DC standby power systems, Chloride Standby and Chloride Transipack have amalgamated their marketing operations.

The move is seen by both companies as a logical grouping of complementary product ranges and expertise—and in many instances common markets. With a turnover this year of £15m and a workforce of over 700 people, the combined operation will be by far the *UK's largest specialist grouping* in the battery based standby power system business.

Chloride Standby provides DC standby systems for industrial and telecommunications applications, as well as central system and single point emergency lighting equipment. Chloride Transipack's major activity has been the design and manufacture of computer grade static uninterruptible power supplies for process control and other vital computer based applications.

Now, all AC and DC products and systems will be marketed under the Chloride Standby name and UK sales will be handled by the newly-formed Power Systems Division.

The most immediate benefit so far as customers are concerned, will be the availability of a complete range, from single-point emergency lighting products right through to computer grade static UPS systems of *500 kVA rating—from a single* source. Where major contracts in the industrial process control field are concerned, there is increasingly a requirement for mixed power supplies to provide no-break power for computers, DC power for switch tripping, and various other standby AC and DC supplies.

Strengthening of field sales and customer resources support in the UK and abroad will be an important result of the move.

Chloride Standby has an established worldwide business in DC standby equipment, and has an international network of direct representation, covering 70 countries.

Contributing to the range of products offered will be the Chloride Standby Systems company in France, Coredel, based in Lyons. This company designs and manufactures AC and DC equipment that will be merketed in the UK and internationally. One of the latest *French-designed and built products*—Telecor, a transistorised float charger for DC telecommunications applications—is to be launched in the UK shortly.

Chloride Standby Systems, Power Systems Division, Unit 3, Barton Park Industrial Estate, Chickenhall Lane, Eastleigh, Hants.

● COMPUTING

Moving into systems field

SO FAR perceived mainly in terms of hybrid microcircuits and plug-in boards, Burr-Brown International has decided to move into systems with the announcement of a programmable data acquisition and control unit, the C450.

Consisting of processor, keyboard, display CRT, 32k of random access memory and floppy disc mass storage, the system also has a variety of interfaces and software to allow it to tackle a large number of applications involving capturing data and processing it in real time. The system can issue control signals, provide status information or commands to an operator and record processed data on disc.

Intel Multibus standards are employed and since there are now a number of manufacturers building boards that can be "hung on" this bus, the C450 user will have a wide choice for expansion/application purposes. Burr-Brown can in addition offer a wirewrap input/output board to accommodate the user's own circuits.

Communication with other C450s, with other DP equipment or with instrumentation systems is possible via three interfaces.

Software (Basic is employed) provides the user with a wide choice of input scanning routines ranging from sequential to random access in addition to such facilities as thermocouple linearisation, conversion to degrees, engineering unit conversion, averaging, peak detection and bit manipulation.

Alarm limit checking is facilitated by an audible alarm built into the standard system. If the user needs special routines, they can be written as an assembly language module and then accessed directly from Basic.

More from the company at 11, Station Road, Watford, Herts. WD1 1EA (0923 33837).

● PACKAGING

Skin protects bottles

AVAILABLE FROM Townson and Mercer are glass bottles of 1.0 and 2.5 litres capacity treated with "Surlyn" ionomer to provide a high degree of protection to both staff and contents in cases of accident.

The bottles, which are of the screw-top Winchester type, are particularly suitable for the carriage and containment of hazardous or very expensive liquids, the spillage of which could lead to serious injury or to heavy financial loss. However, they are also expected to be applicable to a wide variety of packaging needs.

The coating used, which does not impair translucency to any marked degree, is of exceptional strength and tear-resistance, and dropped bottles can under most circumstances be expected to retain contents totally or with slight and reclaimable or disposable seepage only. In addition, the dangers of splintering are nullified.

Townson and Mercer, 101 Beddington Lane, Croydon, Surrey CR9 4EG. 01-684 6262.

● HANDLING

Danger zone trucks

WHERE THE use of conventional machines in dangerous atmospheric conditions is prohibited by law, a series of three fork lifts is recommended by Explosive Proof (Fork Lift) Trucks, Unit E4, Stafford Park 15, Telford, Salop (0952 618881).

The battery-driven trucks can handle loads up to 1,500 kg and 2,000 kg and are available as "ride-on" or pedestrian stackers, counter balance, reach and pallet models.

Because operator safety is a major concern, wrap-round protection has been incorporated in the ride-on range and, although the trucks have been designed particularly for a specialised market, the company stresses that they can be used also as conventional fork-lift trucks in non-hazardous conditions.

THE MANAGEMENT PAGE

EDITED BY CHRISTOPHER LORENZ

How charities can collect from corporate coffers

MOST companies get asked for money by charities. The bigger and better known they are, the greater the barrage.

A great number of companies are willing to have a little money prised out of them for a "good cause." But even those will only be able to favour a handful of pleadings out of possibly several hundred.

Why do companies give? Which organisations do businesses favour and how do they choose? In order to shine some light on corporate charitable donations the market research organisation MORI recently questioned 10 major companies operating in the UK. Five were in the top 60 of the Times 1,000, one was a bank and four were the subsidiaries of foreign owned multinationals.

The project was carried out on behalf of the Mental Health Appeal, which is funded by the National Westminster Bank and benefits both MIND and the Mental Health Foundation.

As part of the same project, MORI also found that most people think companies should make charitable donations — seven out of ten were of that opinion.

The general public also appears to have a pretty clear idea of where the money should go. Asked to pick two or three causes from a list of nine, 84 per cent thought business should support medical research. The elderly were the next most popular cause — 59 per cent felt business should help out there. Third came mental health, an area which one in two thought worthy of business support.

The companies themselves were not quite so certain. From their comments — they were questioned in discussion groups, rather than on paper — they appear to give in something of a haphazard manner. All but one of them had a definite policy on giving, but the rules usually consisted of "do nots." Usually these were "do not give to religious organisations or to political parties" — even though the latter could not be called charities.

Some of the companies also had objections to giving money which went into bricks and mortar. Several had a policy of not giving to individual schools or hospitals on the grounds that there are so many of them it would be difficult to know where to stop. Another eliminated charities which were more likely to be supported by the man in the street, like cancer organisations.

There was no apparent consistency in how much each of the companies was willing to donate. In some it seemed very ad hoc. As one put it: "It is damn difficult to know where to draw the line, and whether one is searching for scores in order to protect one's own conscience or whether one's being realistic about it."

Just why the companies gave to charity at all was not crystal clear. It would be simplistic to say that it is simply good public relations, although it can be that. But one company said that if a good customer asked it to support an appeal (something none of them liked) that would not be regarded as a charitable donation.

Customers

One defined a charitable donation as one which would not be tax deductable as a legitimate business expense, whereas "public affairs" type giving would be deductable against corporation tax.

One company said it would avoid any publicity for its giving for fear of encouraging yet more charities to ask for funds.

Several companies did like to favour charities which would help people who were either employees or customers. "I think what inspires all our policy is the desire to be a good citizen, but it is quite difficult to discover how to be a good citizen of whatever community we are living in and part of," said one company.

Another representative thought that there were benefits to business in having a "sensible and balanced corporate giving policy." In his company the policy was always to evaluate whether charitable donations did have such a benefit to business, although that did not preclude it from donating to a charity where there was no such discernible effect.

The responsibility for giving was fairly evenly split in the ten companies, between the public relations department and the company secretary. Some companies had committees to process applications; in no case was it left to one person to decide, although it was usual for the top level of management to have a major say in where the money went.

From the comments it seems that charities can lose their case as soon as their letter has slipped through the letterbox. There was a common objection by the companies to both circular letters and to those which contained too much glossy material.

One company simply threw into the waste bin any request where it thought the charity had not done its homework. This included requests which were badly or incorrectly addressed, stereotyped appeals, badly spelt or sent to an executive who had been long dead. Of those who said they were put off by slick charities, who had spent several pounds on preparing glossy brochures, one said that too professional an approach tended to diminish sympathy for the appeal.

What they did like was something in between. Brief, well-researched and addressed to the right person, saying how much they wanted and what they were going to do with the money. Tapping business, it seems needs a businesslike approach.

The people responsible for charitable donations had two further hates: appeals behind their backs to the chairman or his wife, and those charities who persisted and persisted, always refusing to take no for an answer.

They might not like such approaches but they conceded they could work.

Mental Illness—Public and Business Attitudes. Market and Oponion Research International, 29 Queen Anne's Gate, London, SW1 H9DD; £5.

Jason Crisp

Full ahead in the wake of nationalisation

Still waiting for compensation, the Lithgow group is diversifying into a variety of industries. Ray Perman reports

ACCORDINC TO Sir William Lithgow there is little official or public sympathy for the men still waiting for compensation three years after the nationalisation of the aircraft and shipbuilding industries.

They are often regarded as well-heeled playboys, anxious to salt away their millions in some offshore tax haven. To those that do not know him, Sir William might almost fit that bill himself: left a fortune and a title by his father, he became at the age of 24, the head of an industrial empire and, he admits, had no need ever to work.

But he does work; since the nationalisation of the Scott-Lithgow group of shipyards on the Lower Clyde, of which he was deputy chairman, he has put his prodigious energies with literally religious fervour—he was brought up to *equate* idleness with blasphemy — into building up Lithgow (Holdings) as a diverse manufacturing, trading and agricultural group whose growth he prefers to measure in numbers of jobs created rather than the more conventional indicators of *profits* or *sales* (*although they* are equally impressive).

In the decade since it was formed the number of employees has quadrupled to just under 1,000 and the rise in turnover has kept pace. In 1970, it was £6.6m with a pre-tax loss of £36,000; provisional figures for 1979 report a turnover of £11.5m—pre-tax profit of £1m.

But the delays in agreeing compensation — which Sir William intends to plough back into the business—is endangering continued growth. There is increasing frustration at what is seen as almost wilful obstruction by the Department of Industry.

"One of the difficulties is that it takes the Department so long to respond to anything. The civil servants think they are saving public money, but it never was public money. It was Scottish industry's money; it was earned on the Clyde and it should go back to Scottish industry.

"We haven't been able to break the surface on this issue because nobody has any sympathy for the shareholders—and we will not get public support until we can show that Lithgow (Holdings) is an active force in the economy and is creating jobs," he adds.

Sir William will not even guess at the sort of amount he will eventually receive—it is likely to be several millions of pounds—but every month's delay holds back the development of the group and reduces the benefit the final pay-out will be able to bring. Already since nationalisation, the value of sterling has been reduced by 60 per cent, which means that many fewer jobs can be created or preserved.

Lithgow (Holdings) was formed in 1970 when the merger of the shipbuilding interests of the two great Lower Clyde industrial dynasties, the Scotts and the Lithgows, made it sensible to try to tidy up the bits and pieces that had been picked up over the years. At about the same time, the West German group, Voithe, decided to close its Glasgow engineering company, of which Sir William Lithgow was a director. The result was to put two experienced engineers and managers, Hugh Arbuthnott and Werner Weis, onto the job market. Both were recruited as executive directors of the new group.

Decades of takeovers, rescues and mergers had left a tangled legacy. Arbuthnott and Weis spent their first months finding out what exactly the group owned, which companies were still trading and which had long since withered away, and trying to trace other shareholders. "We knew one old lady must be dead," Arbuthnott recalls, "but it took tremendous research to prove that she was. Eventually we traced her to a cemetery in New York."

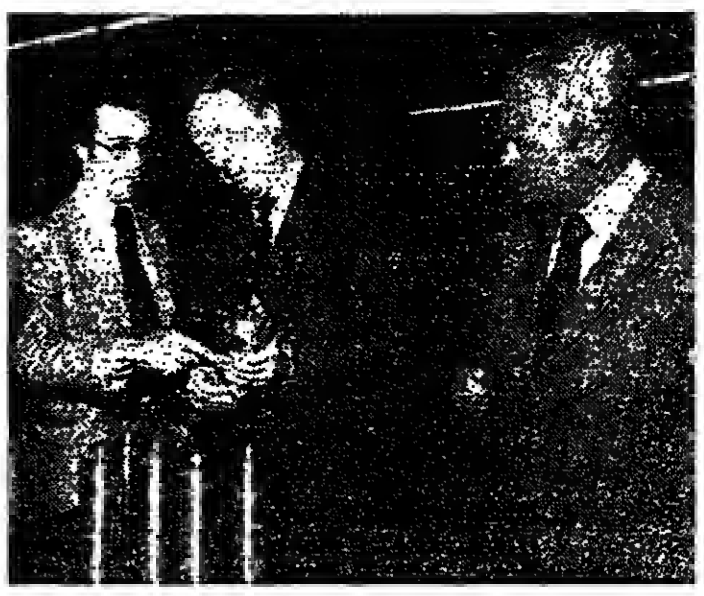
In all there were 15 companies, but only three or four could truely be considered active. Initial surgery was also needed in some cases. Stokes Castings, at Mansfield, had got itself into a financial mess that only a receiver could resolve. Five years later it was back, reorganised, trading profitably with the receiver's son as managing director, and breaking into new markets in the Far East.

Acquisitions started shortly afterwards. Campbeltown Shipyard, a small boatbuilding company on the Mull of Kintyre, had been struggling for years, making launches and other small craft. Lithgow (Holdings) was invited by the Highlands and Islands Development Board, which had put money into the yard, to provide financial and technical help, but ended up buying sole ownership.

The state of the yard reflected the way it had been run. When Weis and Arbuthnott first visited Campbeltown they found practically no accounts. "The *only figure* written down was the size of the overdraft at the bank," says Arbuthnott.

The group decided to make Campbeltown a specialist fishing boat yard. Aiming at the top end of the market, they would make sophisticated trawlers selling for up to £1m each. Lithgows already had the expertise to design and build the vessels, but no experience of selling to fishermen. "We *decided that* the only successful marketing policy would be to find the best fisherman in Scotland and sell him a boat, on the assumption that all the others would then want one too. It worked. At one stage seven of the top ten fishermen in Britain were sailing Campbeltown boats," Sir William says.

The yard is now one of the jewels in the group crown. It is modern, efficient, profitable and highly successful. It has sold fishing boats to Faroe (the maritime equivalent of selling sand to Arabs) and was recently approached by the Canadian Government, which wants to build Campbeltown boats under licence.



Sir William Lithgow (centre) and Werner Weis (right) inspect parts of rotary actuators made at Perenco, together with Gordon Walker, the general manager. Perenco, of Perth, specialises in hardware for the electronics industry, and is a wholly-owned subsidiary of Lithgow (Holdings).

In a small community like Scotland, contacts once made can be useful time and time again. The Campbeltown experience led in one direction to an involvement in ferries, and in another direction (again working with the Highlands Board) into boat building in Shetland and the Western Isles in partnership with the Wood Group of Aberdeen.

In turn, the experience in Shetland, where the group now owns two boat yards, has led to involvement in the oil industry through a new company, Sullom Voe Engineering, formed with the Wood Group and the Glasgow-based Wier engineering group.

Football

While the manufacturing side of the business was growing, so too were other activities. The Lithgow family farms and estates became the core of an agricultural group which now includes a farm in Australia and a holiday property management firm and is expanding into related fields, such as the growing of heathers for garden centres and local authorities. One of the latest projects is salmon farming and is still very much under wraps.

Sir William's father's former home, the imposing Gleddoch House, on the bank of the Clyde, near Greenock, is managed by Lithgow Hotels, as a hotel and country club, together with a hotel in Greenock and one of Glasgow's finest restaurants. A desire to see use made of some of Scotland's natural assets, like the deep waters of Hunterston and the Cromarty Firth, led to involvement in asset management companies.

A more complex reasoning led *to the buying* of a major stake in Morton Football Club, the local team for the Lower Clyde shipyard workers. "It is important for industrial morale to have a successful team," says Sir William.

The expansion of the group owes a lot to the wide personal contacts of Lithgow. Weis and Arbuthnott, acquisitions have often been the result of rescues, sometimes brought to Lithgow (Holdings) by public bodies such as the Highlands Board or the Scottish Development Agency, sometimes by friends in Scottish industry. The three men talk of "problems" rather than "propositions"; the impression is that they look forward to the challenge of *turning* round a company that has started to falter.

"You usually find that you don't have to invent wheels. The wheels are already there it is just that no one is turning them, or not turning them fast enough," says Sir William.

It is a far cry from managing one of Britain's largest shipyards, but Sir William clearly thrives on it. He describes himself as an "interfering Mr. Fix-it." Rather than deal with other company chairmen, he now gets involved closer to the work face, talking to engineers, managers and technicians. The study team developing his current project works from a room in his home so that he can keep up with the progress.

"It is great fun to be back in small business again. It is great fun to sell boats to men who actually go to sea rather than to syndicates of lawyers, bankers and accountants. Hugh and Werner have built this company in the old Scots tradition of getting on with the job. There is none of the internal bickering that typifies big business."

The obvious enthusiasm behind the group's growth makes the frustration over the compensation delays even more keenly felt. Unlike the nationalisation of steel, which the parliamentary draftsmen took as their model when writing the compensation clauses, most of the shipbuilders were private firms. There can be no easy reference to share prices in order to calculate the amount of compensation due and the shareholders have not agreed with what the Department of Industry believes are fair figures.

In the case of Scott Lithgow, legal proceedings had to be started in order to make British Shipbuilders pay arrears of interest on a shareholders' loan to the company and the question of the repayment of loan itself will be considered by an arbitration tribunal in July—three years after the nationalised corporation was set up.

Another tribunal will later consider compensation to be paid for the Scott Lithgow drydock, where the amount offered is less than 10 per cent of the valuation of the plant and equipment. There is yet no indication when the amounts to be paid for the shipyards themselves will be determined.

The effect of this on Lithgow (Holdings) has been to divert attention away from the main task and to sap morale, but there are also more tangible constraints.

"We have an overdraft of a couple of million. Borrowing through the bank is not normally something we do; it means that we have to talk to our bankers before we can make any sharp change in policy so we lose one of the great advantages of private business—the ability to move very *quickly*," Sir William says.

"We are also paying out a lot in interest. We should still be in the acquisition business and we have been talking to two companies, but we are rapidly getting to the stage where we will have to close the throttle.

"The prospect of generating more jobs has been blighted because the more frustrated one gets, the less likely one is to invest—for one thing I'm getting older. But all this is miles and miles away from what goes through the minds of Whitehall civil servants."

Business courses

Planning and Control Techniques for Managing Maintenance Operations, London. March 27-28. Details from AMR International, 6/10 Frederick Close, Stanhope Place, London W2 2HD.

Energy Management and Waste Heat Recovery, London. March 25-26. Fee: £209 (plus VAT) residential, £155 (plus VAT) non-residential. Details from Conference Communication, Monks Hill, Tilford, Farnham, Surrey, GU10 2AJ.

Viewdata '80, International Conference and Exhibition, London. March 26-28. Details from Online, Cleveland Rd., Uxbridge UB8 2DD.

Fundamentals of Computer Operations, Cannock, Staffordshire. March 24-26. Fee: £125. Details from Courses Administration, Compower Training School, Cannock, Staffordshire WS11 3HZ.

Introducing Corporate Planning, Bradford. April 1-2. Fee: £125. *Details from* The University of Bradford Management Centre, Heaton Mount, Keighley Road, Bradford, West Yorkshire BD9 4JU.

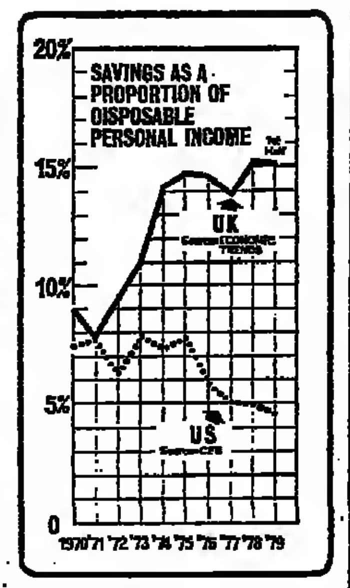
Making the Most of Human Resources—a workshop for men who manage women. Brunel University. April 17-18. Fee: £125. Details from The Secretary, Management Programme, Brunel University, Uxbridge, Middlesex UB8 3PH.

Anglo-American savings ratios

BY SAMUEL BRITTAN

ACCORDING TO the old conventional wisdom, rapid inflation was bad for savings. It conjured np a picture of people rushing to transform their money into goods.

It was therefore with some surprise that people observed that the move to double digit inflation in the UK in the 1970s was accompanied by a very large rise in the personal savings ratio. This increased from 8 to 9 per cent in 1970-72 to 15 per cent in 1978-79.



Explanation

As usual economists found an explanation of the change after it had occurred. Accelerating inflation reduces the valua of people's liquid assets. As Mr. Paul Turnbull sbows in the new issue of Messel's *Financial Analysis*, the level of liquid assets fell as a proportion of personal disposable income. Even so, large additions bave to be made to nominal liquid asset holdings to keep that ratio at desired levels—75 per cent in the late 1970s compared with 90 per cent at the beginning of the decade. Much of this "saving" has come about automatically. Increased nominal interest is added to bank and building society deposits, thus boosting both income and savings without any intended changes in anyone's behaviour.

Economists have therefore been tempted to recalculate on an inflation accounting basis the figures of both personal income and savings. Real net savings on this adjusted definition represent what the individual has been able to "put by" to increase his wealth, as distinct from merely maintaining it. The famous Bank of England Discussion Paper 6, by C. T. Taylor and A. R. Threadgold, which showed an extremely low public sector borrowing requirement on an inflation-adjusted basis, also showed that personal savings bave averaged only 0.3 per cent.

All this would be very well, except for the fact that U.S. savings bave been behaving in precisely the opposite way. The actual unadjusted U.S. personal savings ratio has falleo in the 1970s from 7½ to 4½ per cent in the classic way expected wben inflation rises. The savings deficiency has been a major problem area for American economists who bave written learned articles, for instance on bow social security undermines the incentive to save. Attempts by consumers to save less may also explain why the U.S. recession has so far confounded people by its late and feeble arrival.

Double puzzle

As in the UK, economists have explained it all away after tha event; but in contrast to the UK, they have adjusted the official figures upwards, not downwards. For instance, Townsend-Greenspan consultants have taken into account real capital gains, especially from home ownership and the decline in real mortgage liabilities. On this basis the 1978-79 personal savings ratio looks more like 12½ than 4½ per cent.

Thus we have a double puzzle: opposite trends in tha two countries in savings ratios, and opposite distortions diagnosed in the figures.

All this is still guesswork. But these trans-Atlantic differences may help explain why U.S. policy makers of all persuasions still believe that there is at least a short-term trade-off between unemployment and inflation, while British market economists tend to believe that policies which make people worry about inflation will generate little if any extra real demand or employment even in the short term, as they will be offset by higher personal savings. Tha moral is to stick to the underlying long term relations in designing policy as the ebort term path is sure to be full of surprises.

Lords settle for the simple approach

THE WEEK IN THE COURTS

BY JUSTINIAN

CLAUSES IN commercial contracts that exempt a defaulting party from any liability for breaches of his contract have, for long, been unpopular. Their unpopularity led the courts over the last two decades to develop a supposed rule of law to the effect that what was characterised as a fundamental breach of contract, which aotomatically brought the whole contract to an end, thereby debarred the contract-breaker from relying on the clause that safeguarded him against liability.

Although the House of Lords in 1966 in Suisse Atlantique v Rotterdamsche Kolen Centrale* rejected the argument that there was any such rula of law, it continues to be applied by the Court of Appeal (particularly under the indefatigable reformist zeal of Lord Denning). The doctrine of fundamental breach was always of doubtful parentage; it also spawned sophisticated distinction that disclosed its imperfection.

But it did serve a useful purpose. As part of the growing movement for consumer protection, there came before the courts a host of problems productive of injustice in which it was worse than unsatisfactory to leave exception clauses to operate. This was particularly so where the exception clause was a standard form of contract that the consumer was faced with on a take-it-or-leave-it basis.

The nnequal bargaining power of the customer as against his supplier drove the courts to seek a way of disallowing any reliance on exceptions from liability whenever the supplier was in breach of contract.

Finally, Parliameot was forced to intervene.

The Unfair Contracts Terms Act, 1977, applies to consumer contracts and those based on standard terms. It enables exception clauses to be applied with regard to wbat is just and reasonable. But Parliament refrained from legislating over the whole field of contracts. On commercial matters generally the Act does not impinge. Where the contracting parties are not of unequal bargaining power, and when the risks on both sides are normally borne by insurance, judicial intervention is not required, but indeed there is everything to be said for leaving the partiea free to apportion the risks as they see fit and for the courts respecting their mutual wishes.

The House of Lords has, let us hope, now buried tha doctrine of fundamental breach. In Photo Production v. Securicor Transport, the Law Lords last week decreed that the courts should leave such cases to be decided straightforwardly on what the parties in their contracts have bargained for, rather than upon analysis that becomes progressively more refined as the case law builds up. In the Securicor case, Mr. Justice MacKenna felt quite able to decide tha case on normal principles of contractual law with a minimum citation of decided cases. By contrast the court of Appeal indulged in a plethora of citation of earlier decisions to reverse the decision of the trial judge, only to be reversed itself.

The case exemplifies the new-found simplicity of the courts' approach.

In 1968 Securicor agreed to provida factory owners with a night patrol service for their factory in Maidstone at a charge of £8.15s (old currency) per week. The agreement was that the patrolman would make four visits per night seven days a week; two visits would be made during Saturday afternoon and four visits during Sunday.

The contract incorporated printed standards of conditions which in certain circumstances might exclude or at least limit Securicor's liability. The primary qnestion in the case was whether these conditions could be invoked at all in the events which happened.

What happened was that on a Sunday night the Securicor's employee on duty visited the factory at his regular time. It was not euggested that he was unsuitable for the job, or that Securicor had been negligent in employing him. But when he was inside the factory, he deliberately started a fire by throwing a match on to some cartons; the fire got out of control and a large part of the premises was burned down. Though what he did was deliberate, the employee did not intend to destroy the factory. The trial judge found that whether the employee "intended to light only a small fire (which was the very least he meant to do) or whether he intended to cause much more serious damage, and in either case, what was the reason for his act, are mysteries I am unable to solve."

The condition in the contract on which Securicor relied for exempting it from liability read as follows: "Under no circumstances shall the company (Securicor) be responsible for any injurious act or default by any employee of the company unless such act or default could have been foreseen and avoided by the exercise of due diligence on the part of the company as his employer; nor, in any event, shall the company be held responsible for any loss suffered by the customer through burglary, theft, fire, or any other cause, except insofar as such loss is solely attributable to the negligence of the company's employees acting within the course of their employment."

Securicor had undertaken to provide a service of periodical visits to the factory for a modest charge that worked out at 26p (new currency) per visit. It did not have to provide any equipment; it would have no knowledge of the value of the factory and, more particularly, it would have no idea of the efficacy of the factory's fire precautions. In those circumstances nobody could consider it unreasonable, as between two parties of equal bargaining power, that the risk assumed by Securicor should be only a modest one, and that the factory owners (or their insurers) should carry the substantial risk of damage or destruction to their factory.

Securicor also undertook a duty to provide a service, and that duty included a duty to take care in selecting their patrolmen, to guard the keys to the factory, and to exercise the limited service with due and proper regard to the safety and security of the premises. It was the last obligation that Securicor had failed to discharge.

Did the exception clause in the contract apply so as to exempt Securicor from liability for that breach of contract? The clause was undoubtedly drafted in strong terms — "in no circumstances" and "any injurious act or default by any employee." The words could hardly be clearer. They exempted Securicor from any negligence and from the consequence of its employee's deliberate act of setting fire to the factory.

The trial judge held that liability was effectively excluded by the terms of the contract. The House of Lords agreed with this and reversed yet again a judgment of Lord Denning.

* (1967) AC 361.

Lobby fo[r] citizens' band rad[io]

BY ELAINE WILLIAMS

THE LOBBY for legalisati[on] use of Citizens' Band rad[io] Britain has formed a co[mmit]tee, chaired by a Tory [...] cipal councillor, to focus [...] tion on the growing numb[er] CB users in Britain.

Mr. Theo Yard, of Lew[...] Council, chairs the Na[tional] Committee for Legalisatio[n of] Citizens' Band radio.

CB, the personal com[muni]cations system made famo[us by] U.S. truck drivers, and wh[ich is] legal in most European [coun]tries, is used by an estim[ated] 8,000 people in Britain.

Mr. Yard said yeste[rday:] "Our aim is establishment [of a] legal CB system as soo[n as] possible. We will act to [draw] attention to our case [...] hold regional meetings [...] representation to any inter[ested] groups."

The frequency used by [CB] radio in the U.S. is 27 m[Hz, a] band occupied in the UK [by] broadcasting and fixed ser[vices] as well as amateur radio co[...]

The Home Office has ba[nned] CB in the UK, and Mr. Tim[othy] Raison, Minister of State, [Home] Office, has described p[eople] illegally using the 27 mHz [band] as putting "quite selfishly [their] fellow citizens at risk."

However, the possibilit[y of] introducing a system usi[ng a] higher frequency has not [been] ruled out.

Likely clues for Cheltenham

RACING

BY DOMINIC WIGAN

THIS WEEK'S racing in Britain and Ireland should shed plenty of light on likely form at Cheltenham unless rain produces heavy going.

For many the major question surrounds that remarkable little Irish hurdler Monksfield, Des McDonagh's horse, the winner of the last two Champion Hurdles; he has been disappointing this season.

However, McDonagh insists these lacklustre performances can be put down to what has been called "overthick blood."

Recent encouraging blood counts, however, suggest Monksfield is now returning to somewhere near his peak. If this is so, he should certainly finish among the first four in Saturday's Erin Foods Hurdle at Leopardstown.

But few can see Monksfield taking the race. He bas never won at Leopardstown and last year finished sixth, way behind the winner, Connaught Ranger.

At Cheltenham a few weeks later, Monksfield was first home, with Connaught Ranger finishing sixth.

The Erin race should also provide clues to the likely Cheltenham form of two other runners—Celtic Ryde and Chinrullah.

Of the pair, I have most regard for the Jonjo O'Neill-partnered Celtic Ryde who, although not a top-class performer, will lack nothing in fitness. It it will be his fifth appearance since December 7.

O'Neill is also due to ride Jack Of Trumps; another I would not care to back at Cheltenham.

True, he has undeniable class but his jumping leaves a lot to be desired and his record in Britain, just one success in five outings (and that in a three-runner race), does not auger well for Cheltenham.

Other leading Festival candidates in action this week include Diamond Edge and Pollardstown at Wincanton. Pollardstown will be hard pressed to win the Kingswell Hurdle if the early pace is slow and he has an opponent with finishing speed.

PLUMPTON

1.45—James Hunt***

NOTTINGHAM

1.30—Springdamus
2.00—Silver Shadow
2.30—Bawnogues*
4.00—Longeliffe**

ENTERTAINMENT GUIDE

OPERA & BALLET

[illegible]

THEATRES

[illegible]

CINEMAS

[illegible]

ART GALLERIES

[illegible]

CLUBS

[illegible]

TV/Radio

BBC 1

† Indicates programme in black and white

6.40-7.55 am Open University (Ultra high frequency only). 9.00 For Schools, Colleges. 11.25 You and Me. 11.40 For Schools, Colleges. 12.45 pm News. 1.00 Pebble Mill at One. 1.45 How Do You Do? 2.01 For Schools, Colleges. 3.15 Songs of Praise from Brighton, Sussex. 3.53 Regional News for England (except London). 3.55 Play School (as BBC2 11.00 am). 4.20 Touché Turtle. 4.25 Jackanory. 4.40 Heyyy, It's the King. 5.00 John Craven's Newsround. 5.05 Blue Peter. 5.35 The Perishers.

5.40 News.
5.55 Nationwide (London and South East only).
6.20 Nationwide.
6.45 Olympic Grandstand.
8.10 Panorama.
9.00 News.
9.25 The Monday Film: "The Blue Knight" starring William Holden and Lee Remick.
11.05 Film 80.
11.35 News Headlines.
11.37 Education Matters.
12.02 am Weather / Regional News.

All Regions as BBC1 except as follows:

Wales—1.45-2.00 pm Pili Pala. 2.18-2.38 For Schools. 4.40-5.05 Isla and the Farm on the Hill. 5.55 Wales Today. 6.20 Tom and Jerry. 6.30-6.45 Heddiw. 12.02 am News and Weather for Wales.

Scotland—11.00-11.20 am For Schools. 12.15 pm It's A Great Life. 12.40-12.45 The Scottish News. 5.55-6.20 Reporting Scotland. 12.02 am News and Weather for Scotland.

Northern Ireland—3.53-3.55 pm Northern Ireland News. 5.55-6.20 Scene Around Six. 12.02 am News and Weather for Northern Ireland.

England—5.55-6.20 pm Look East (Norwich); Look North (Leeds, Manchester, Newcastle); Midlands Today (Birmingham); Points West (Bristol); South Today (Southampton); Spotlight South West (Plymouth).

BBC 2

6.40-7.55 am Open University.
10.05 It Figures.
10.30 The Handicapped Family.
11.00 Play School.
11.25 pm Let's Go.
2.30 Roads to Conflict.
3.00 That's the Way the Money Goes.
3.30 Delia Smith's Cookery Course.
4.00 Modern Language Teaching.
4.50 Open University.
†5.40 Laurel and Hardy.
6.00 James Burke's Connections.
6.50 Training Dogs the Woodhouse Way.
7.15 Mid-Evening News including sub-titles.
7.25 Rock Goes to College.
8.10 The Goodies.
8.40 Des O'Connor Tonight.
9.30 Horizon.
10.20 Russian Language and People.
10.45 Newsnight.
11.30 Arena.
12.05 am Closedown, reading.

LONDON

9.30 am Schools Programmes. 12.00 We'll Tell You a Story. 12.10 pm Rainbow. 12.30 Numbers at Work. 1.00 News, plus FT Index. 1.20 Thames News. 1.30 About Britain. 2.00 Food, Wine and Friends. †2.30 Monday Matinee: "The Card" starring Alec Guinness. 4.15 Clapperboard. 4.45 Jukes of Piccadilly. 5.15 Money-go-Round. 5.45 News. 6.00 Thames News. 6.35 Crossroads. 7.00 The Kenny Everett Video Show. 7.30 Coronation Street.

8.00 Rushton's Illustrated.
8.30 World in Action.
9.00 The Sandbaggers.
10.00 News.
10.30 Monday Film: "Lock Up Your Daughters!" starring Christopher Plummer and Susannah York.
12.20 am Close: Bernard Hepton reads poems by William Blake.

All IBA Regions as London except at the following times:

ANGLIA
[illegible]

ATV
[illegible]

BORDER
[illegible]

CHANNEL
[illegible]

GRAMPIAN
[illegible]

GRANADA
[illegible]

HTV
[illegible]

SCOTTISH
[illegible]

SOUTHERN
[illegible]

TYNE TEES
[illegible]

ULSTER
[illegible]

WESTWARD
[illegible]

YORKSHIRE
[illegible]

RADIO 1
[illegible]

RADIO 2
[illegible]

RADIO 3
[illegible]

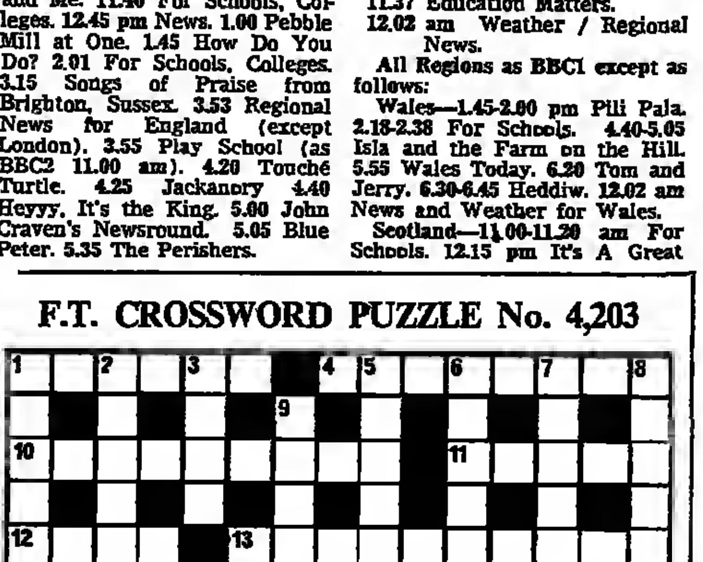
RADIO 4
[illegible]

BBC Radio London
[illegible]

London Broadcasting
[illegible]

Capital Radio
[illegible]

F.T. CROSSWORD PUZZLE No. 4,203



ACROSS

1 Covering article in matter for printing (6)
4 Sleeping draught used to keep out the draught (8)
10 Second growth following haircut (5-4)
11 Relaxed with Pole in Looe (5)
12 Drink to Physical Education (4)
13 Dilapidated sheep's comb (10)
15 Imagine attitude after drink (7)
16 Develop middle of revolver (6)
19 Hole in the ground giving value in credit (6)
21 Redesigned real net that's everlasting (7)
23 Apply to accept a revenue seemingly (10)
25 Chant part of mass in Greek (4)
27 Placed for musical interval (5)
28 Watching old boy and retainer (9)
29 Fabric worker showing rank (8)
30 Weep about eel going astray in plant (6)

DOWN

1 Sit up in pursuit to punish (8)
2 Whereon composers write their letters? (9)
3 Wave often seen on pools (4)
5 I'm nearly out of date in deadlock (7)
6 = this (4-1-5)
7 Sound like a frog and die (5)
8 Eye a prying person (6)
9 Produce from acre at Eton (6)
14 Base game for pedestrian use (10)
17 Five to point out and defend with success (9)
18 Cunning about illumination in a small degree (8)
20 Disparage in weakened health (3-4)
21 Listen incorrectly and join up (6)
22 Chap it's changed for insect (6)
24 Previous bead of a house for friars (5)
26 Release soldiers surrounded by iron (4)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

Coliseum

Manon

The revival of John Copley's production for English National Opera of *Manon* at the Coliseum on Friday night brought forward not only a new Chevalier des Grieux, which was expected, but also a new Manon, which was not. Owing to the indisposition of Valerie Masterson, the title role of Massenet's opera was sung, at very short notice, by Penelope Mackay. Understandably nervous to begin with, she contents herself, in the first act, with a reproduction, inevitably paler than the original, of Miss Masterson's vivid portrayal of the young girl.

Once arrived in Paris, Miss Mackay's Manon starts to assert her own individuality. She gives a charmingly light account—the moment for high drama has not yet arrived—of "Adieu notre petite table." Graceful in her movements and extremely attractive in Alix Stone's beautiful dress, she achieves full confidence in the Cours-la-Reine scene. The Gavotte is elegantly phrased, but the oblique little conversation with Count des Grieux—authoritatively played and sung by Richard Van Allan—comes off better still, pointing the moment when Manon's heart gains ascendancy over her head.

It takes two singers, wholly immersed in their roles, to raise the emotional temperature in the Saint-Sulpice scene, and John Treleaven's ardently voiced Chevalier des Grieux is here of inestimable help to his Manon. Himself new to the opera, he betrays this inexperience in the earlier acts with a certain stiffness of manner, but "Ah, fuyez, douce image" sweeps away any lingering inhibitions, so that the duet with Manon acquires the necessary voltage. The gambling at the Hotel Transylvania also has unusual conviction, largely owing to the excellent Guillot de Morfontaine of Edward Byles, who is dangerous as well as a figure of fun.

Niall Murray repeats his effective, gamecock of a Lescaut, while Patrick Wheatley offers a genial, self-confident De Bretigny. The production remains in good repair, with the bustle of the inn yard at Amiens—the prettiest of Henry Bardon's colourful sets—and the other crowd scenes well-organised and natural in their ebb and flow. The conductor, Nicholas Cleobury, takes a very positive view of Massenet's score; he shapes the luscious melodies with care, but without lingering, and though ideally a *larger measure of elasticity* might be welcome, in the circumstances his relative strictness is no doubt preferable.

ELIZABETH FORBES

Bush

Duet for One

by B. A. YOUNG

One of the two characters in this duet is confined to a wheelchair. The other confines himself to his own armchair, remaining silent much of the time even when speech is urgently called for, and gazing absently at his shoes. The play is one of the most exciting to be seen in London at the moment.

Stephanie Abrahams, played by Frances de la Tour, has been urged by her husband to see a psychiatrist. She is a world-famous violinist who has contracted multiple sclerosis. When we first see her, she is gaily dressed and talks optimistically about taking pupils, about doing secretarial work for her husband.

Sometimes, she says, she feels "a bit low," but the face she presents to Dr. Feldman, is confident and brave. Dr. Feldman, cryptically reticent, prescribes tablets for her depression.

In the following five scenes, Tom Kempinski charts the conflicts between patient and doctor. The patient seems to grow steadily worse. She sends her pupils away as useless material. She relinquishes her intention of doing secretarial work. She loses confidence in her husband's composition, which before she had spoken of with exaggerated praise. She exchanges her public charm for a vulgar manner and boasts of a squalid sexual affair with a rag-and-bone man.

In the final scene, there is a hint that the doctor's angry outburst at her helplessness—his only exhibition of emotion during the evening—may have had some effect: she is a little tidier, a little more polite. But she has only come to say that she will not come again.

"Shall we resume next week at the same time?" says Dr. Feldman conventionally as his patient leaves.

This is a wonderfully sensitive play, positive and optimistic. Miss de la Tour's performance, spanning the whole range of emotion from bumptiousness to breakdown, is as good as anything of its kind that I can remember, and confirms my opinion that she is one of the very best actresses we have today. David de Keyser, projecting the doctor's resolute humanity through a modicum of action, is remarkable, too. No-one seriously interested in the theatre can afford not to see this production.

The excellent direction is by Roger Smith, and the evocative set that tells us so much about the psychiatrist through his choice of surroundings, is the work of Caroline Beaver.

Frances de la Tour

Leonard Burt

Collegiate

The Duenna

by RONALD CRICHTON

Prokofiev's *The Duenna*, based on the comic opera text Sheridan wrote for the Linleys, was composed during the war, just before *War and Peace*. It used to be known, not quite accurately, as *Betrothal in a Monastery*. Though *The Duenna* has been broadcast, University College Opera's production last week was the British stage premiere. Howard Williams conducted, Chris de Souza produced. Sets were by Andy Davies, costumes by Trevor Collins. The performance had merit: not this enterprising company's fault that the opera proved a lowering experience on the whole. And it was not a waste of time. Prokofiev's enormous, uneven talent is rarely that, even when it is running in low gear.

Sheridan's public at Covent Garden in 1775 was presumably more sophisticated than Prokofiev's in Leningrad in 1946. Not only did Prokofiev greatly expand lyrical scenes at the expense of the intrigue, but he underlined what became Russian-style grotesqueries in a way that nearly kills them—glaring examples in the second part are the constantly interrupted rehearsal of Don Jerome's rustic minuet and the drinking scene for comic monks. The lyrical pages bring their rewards, though apart from a fine quartet there is little one doesn't seem to have heard before. Ballet music comes by the yard. In the first part, especially, there is a terrible amount of tick-tock and chug-chug. After the interval the pace generally quickens, with more triple-time as a welcome relief from motoric one-two.

A disadvantage of the leisurely pace—like roughened-up Rimsky-Korsakov — is that one loses contact with the plot. It did not help comprehensibility that the heroine Louisa's disguise as her own duenna was so rudimentary — not even a mantilla over Fiona Dobie's unmistakeable auburn frizz. Otherwise and within limits the action was ingeniously treated, well rehearsed, neatly carried out. The romping dances were arranged by Edmund Stripe and done by the chorus (the men, as singers, were notably strong in the awful monks' scene: at Friday's performance the off-stage music, sign of thorough preparation, was precisely timed). Costumes and quick-change sets were simple, bright and right. The aforesaid limits concerned the question of pace. English comedy style was stretched thin over the rambling Russian framework. One result was that the rhymes in Jean Karsinova's translation clonked heavily.

The score, a sizeable undertaking for a student orchestra, was capably handled under the conductor's sure direction, though there was some tiring and smudging in the second part. This unfortunately affected Clara's big aria, promisingly sung by a new young mezzo, Janet Scott Evans. Neither she, Fiona Dobie as Louisa, Philip Doghan (pleasant light tenor) as Louisa's beau Antonio, nor Oliver Broome in a clever but light-voiced sketch of the greedy fish-merchant Mendoza, essayed anything remotely like Russian vocal timbre.

Two of the cast however had the weight of voice for the music and emphasis for the comedy (Prokofiev's rather than Sheridan's). Nuala Willis, formidable as the duenna who tricks Mendoza into marriage, projected her deep contralto to striking effect. Jacek Strauch, though his voice threatens to put on too much fat, sang Ferdinand, Clara's suitor, with vigorous warmth. There was polished singing from Andrew Shore as the second baritone, Carlo, and from Graeme Matheson-Bruce as Don Jerome, irascible father to Louisa and Ferdinand, who surprisingly had the appearance, manner and even gestures of the Lord Chancellor in *Iolanthe*.

Round House

The Weavers

Gerhart Hauptmann heard the story of the weavers' revolt in Silesia in 1844 from his father, whose grandfather knew it at first hand. The story is a simple one. The weavers, already living in extreme poverty, are threatened with a wage cut by their dictatorial employer. Egged on by a soldier, they chase their employer from his house and destroy it, and are only stopped from further action when the army is called in. The end is inconclusive, but a casual mention of the new mechanical looms suggests that the weavers' real troubles have not begun.

The Weavers is a curiously made play. There is hardly a character who shows any personal individuality: all are stereotypes, and moreover the hero—the leader of the uprising, that is—is not an individual at all. The hero is the whole community of weavers. So no special emphasis is put on particular people: at the beginning of the evening we spend much time with the Baumert family, whose sufferings we are shown in some detail, but they virtually fade out after a time, and in the concluding episodes of the play we are suddenly introduced to the Hilse family, whom we have never even heard of before.

Hauptmann wrote the play in dialect, but Frank Marcus's translation is in simple standard English, and this is a mistake, for the characters are deprived of any social standing. Boss or starving worker, the voices, and indeed the delivery of the lines, are identical. As there is not much action on stage, interest flags rather easily.

Plenty may be said to be going on, but we only hear it described, without much emotion, by little bodies of men and women, standing hunched in the entrance passages.

Liz da Costa's set, a wooden stage with a lower-level stage in the middle and a balcony above, gives scope for some interesting groupings, but the direction; Paul Marcus, seems as determined as the author himself to avoid anything in the way of excitement. With the characters given such low-profile treatment, there is little scope for effective acting: Barry Rutter makes something of the soldier Moritz, and Michael Elphick injects a touch of Priestley into his playing of Dreissiger, the wicked boss.

Hauptmann has certainly been given little attention here, but *The Weavers* hardly seems a good introduction. If there was any feeling that current events in the steel and motor-manufacturing industries hit a sympathetic note, it was a mistaken one: the weavers, working for small private factories in rural areas, have nothing in common with organised mass labour in industrial towns.

B. A. YOUNG

Festival Hall

Bach Choir

by RICHARD JOSEPH

In an enterprising programme, given on Friday night at the Festival Hall, The Bach Choir contrasted two extravagant 20th century Eastern European choral works. But scale and geographical origin apart, Kodaly's *Te Deum* (dating from 1936) and Janacek's Glagolitic Mass (composed in 1926) have little in common.

The *Te Deum* is a fundamentally conservative work, with Kodaly responding to the text in an unashamedly traditional fashion and striding through it with big, amply contrasted gestures. Exceptionally well crafted and undoubtedly fun to sing, the music received a whole-hearted performance from the Choir and the Philharmonia Orchestra.

Janacek's Glagolitic Mass is another matter. This obstinately unconventional, asymetrical work requires more considered handling than the Kodaly: the choral parts are less gratefully composed, the orchestration is crowded with ideas that need careful voicing and balancing. David Willcocks's effusive conducting encouraged everyone equally and let the sonic chips fall where they may. This resulted in generally brass-heavy textures and a lack of definition in high-lying string passages. However, the result was undoubtedly exciting and the Philharmonia played generally well.

The soloists have equally difficult tasks. Anne Collins and Ian Caddy both made their mark in the brief passages Janacek assigns to contralto and bass. Soprano Teresa Cahill sang with a consistently sweet tone but could not offer quite enough volume to compete with the full chorus and orchestra. Tenor Kenneth Bowen delivered the uncomfortably written solos of the Credo with thorough professionalism. Simon Preston crashed through the knuckle-twisting organ solos at great speed and also delivered an expert account of Poulenc's rambling Organ Concerto between the choral works.

Despite some rough choral edges and the feeling that the Philharmonia would have been more comfortable with another rehearsal, this was an enjoyable planned, enthusiastically executed concert.

St. John's, Smith Square

Lysis

by PAUL DRIVER

Like a number of current avant-garde enterprises, though with a prodigal appetite that leaves most of them standing, the *Lysis* ensemble is keen to serve up pieces demonstrating the qualities of pure sound. Experience of Cage's music may tell us that this can be an interesting and even, very occasionally, magical exploration. But Saturday's recital tended rather to confirm—on a variety of counts—that insofar as music is a language the aboriginal is also the rebarbative. For the musical expression of sound itself you have really to go not to a Cage but to Webern or a Gerhard.

No work of Cage's was included, in fact, but *Durations IV* (1962) by an apostle of his, Morton Feldman, was. Here vibraphone, violin and cello are supplied with a few quiet dots and asked to articulate them, mostly by the use of silences, into a piece. Not surprisingly, it was the fact of duration rather than its quality that had salience. Again, in the Danish composer Per Noorgaard's *Waves* (1969) for percussion solo, whatever the formal reference of the title may have been, the meagre indications to the player simply afforded him the licence of a little boy in the scullery (for 20 minutes!). The climax when it duly and gratuitously arrived pointed the emotional *sameness* of all such conceptions—where gesture has been substituted for matter. Even Stockhausen's *Zyklus*, the *locus classicus* for this kind of display, only properly exists at a pre-compositional level. And the Dutchman Will Eisma's *Gezang 23* (1970), setting a raucous violin solo against a graphically notated percussion backing, did nothing to alter one's view.

Sameness is also the abiding hazard of group improvisation—a speciality of Lysis at which they do excel. In spite of incidental, colouristic variations, the shape of the improvisation almost always turns out to be a simple, self-evident arc. Moreover, the ingredients used are—once more—gestures of sound: it would be a richer challenge to start off from a tune perhaps? Nevertheless, Saturday's (completely spontaneous) excursion did convey subtlety and pleasure, suffused a little by the Feldman which preceded it.

The remainder of the packed programme was fully "written out" music, but not without its problems. Both Henze's Sonatina (1976) for unaccompanied trumpet (excellently played as on Lysis's recording by John Wallace) and Stockhausen's *In Freundschaft* (1977) for clarinet alone (played not quite impeccably by Colin Lawson) adequately cope with the difficulty of keeping up interest in pure monody: Henze by limiting himself to the succinct and sparkling; Stockhausen by writing a refreshingly unpretentious, thoroughly crafted étude, free of the clarinet's expressionist rhetoric. The other Dutch work Lysis was featuring, Peter Schat's Two Pieces (1959) for a small ensemble, equally impressed by showing coaxing craftsmanship. But *Et maintenant c'est à vous de jouer* (1979) by the aged Italian maverick Giacinto Scelsi—a remorseless scrutiny of a narrow pitch-range for double bass and cello (plus conductor)—nearly had one screaming.

Riverside Studios

Pauline de Groot

by CLEMENT CRISP

It used to be said that dance was the only *theatre art* in which not one foolish word was heard all evening—at least from the stage. Alas, no longer. The Dance Umbrella season has brought a babble of inanities from some performers, and none which I think more tiresome than Pauline de Groot's Dutch ensemble on Friday night. In company with two other female dancers, with two male musicians who were barefoot, and with a stage decorated only by a loaf of bread, Miss de Groot showed us her *Stepping Stones* whose 11 incidents purport to be "the search for the next step in the lives of three women and two men."

The search brought the ladies on stage, chanting and slumping over each other. Thereafter we saw one flailing around with a good deal of energy—continuous turning, unless one is a dervish, is not the most inspirational of activities—and Miss de Groot in a patch-work dress heavily accoutred with old saucepans. She, in turn, spun round, which allowed the pans to clatter while she emitted discomsolate cries. This may have been a request for help with the washing-up. We heard a commentary upon a flight of aeroplanes: the ladies divided the loaf rather brutally—perhaps the Dutch like very thick sandwiches—and all the while one of the musicians banged a variety of percussion instruments (we appreciated his need for bare feet when he tripped a miniature drum-stick with his toes) and his companion went to work on a saxophone, and I wondered if there should be a Society for the Prevention of Cruelty to Musical Instruments.

One of the dancers rotated, and talked to us about mountains. Time and Space: the New Dance crowd are well up to tackling Big Themes, rather like gnats deciding to sing *Der Ring des Nibelungen*. And it was all over. The programme, which carries a heavy-weight message about her art from Miss de Groot, also bears the minatory words "There will be no interval" which seems to me the modern equivalent of "Abandon hope all ye who enter here." As a specimen of Advanced Nincompoopery, *Stepping Stones* is a collector's item. As dance, I find it a non-starter, a dull rechauffé of Merce Cunningham's more abstruse moments, idiosyncratic and self-indulgent, with none of Cunningham's discipline, wit, nor one iota of his choreographic skill. The programme, a mine of information I would rather not have acquired, also announced that the Dutch Government provided financial support for the work. The least they can do is to offer danger money to critics having to watch it.

*

Rosalind Newman, an American practitioner of the New Dance, was at Riverside a week ago. The adorable caprices of the Northern Line caused me to miss the first half of her programme. The second part begged every question I had to ask of its title: *Necessary Adventures*. A programme note advised us of the earnestness of the enterprise, and I am not sure which seemed the more unnecessary and unadventurous to me: the meagre dances or the lumpy prose which referred to "the work's particular evolving organicity."

What we saw was three young women armed with wooden poles, making skips and runs and eager jumps, bodies neatly trained, and deeply and almost vulnerably naif in what they did. With their clear brows and dreary costumes — is there a Hobbit Surplus Store which outfits these New Dancers?—they take their flat little activities *au grand sérieux*. It is every day's tedious actions posing as high art. And it makes me yawn.

Tower, Canonbury N.1.

Sing For Your Supper

by MICHAEL COVENEY

The enterprising amateurs of Islington have joined the compilation musical "stakes—which will never be the same after *Songbook*—with a Rodgers and Hart tribute devised by Sara Randall. Fifty numbers from that total, incredible output of almost 500 are on the bill. All were written between 1919, when the pair first met, and 1943, when Hart died and Rodgers was already in harness with a new lyricist, Oscar Hammerstein.

A visit to the first half on Friday night did not convince me that the Tower had come up with any presentational ruse to improve on the now familiar cabaret format devised in honour of Coward, Porter and Sondheim. In fact, without professional slickness and the acidulous commentary of a Ned Sherrin, the evening plodded.

The linking narrative, provided by a rather dazed looking man in evening dress who seemed determined to ignore the pink cocktails at his elbow, was straight biographical detail, playing down Rodgers' domestic security and playing up Hart's size and alcoholism. Just like Mickey Rooney in the slushy film, Hart was a loveable loser. He also, apparently, liked tall dames and young boys, although that seems to me minimal justification for doing "Mountain Greenery" as a camp send-up for two hip-swivelling lumberjacks wielding their choppers.

The lyrics are frequently split between several singers, which is a distracting idea, as they rely so much on delayed rhymes, metrical surprise and syncopation. Even ordinary singers, though, cannot disguise the sheer brilliance of such songs as "Too Good for the Average Man" (done by five heavily made-up boys in bowlers), "Blue Moon," "Ten Cents a Dance," etc., etc. The title song is one of many great numbers in *The Boys from Syracuse*. The onstage musical accompaniment is basic, a little wayward in its tempi.

The programme is wrong to state that "My Funny Valentine" comes from *Pal Joey*: it derives from *Babes In Arms*, which is also represented by such wonderful standards as "The Lady is a Tramp," "Johnny One-Note," and "Where or When."

Samsova joins Sadler's Wells Royal Ballet

Galina Samsova has joined Sadler's Wells Royal Ballet as a principal dancer and as a teacher with Sadler's Wells Royal Ballet, The Royal Ballet and the Royal Ballet School.

Arts Council appointments

Two new appointments to the Arts Council of Great Britain are Mr. Gerald Elliot and Professor A. N. Jeffares.

Additionally Mr. Elliot has agreed to become chairman of the Scottish Arts Council.

RUGBY UNION BY PETER ROBBINS

Sweet victory leaves bitter taste

THERE WERE conflicting sentiments at Twickenham after England's 9—8 victory over Wales—on the one hand English elation at the unlikely result and the chance of the Triple Crown and Grand Slam and on the other Welsh depression at losing to their bitterest rival.

For some, reason was quickly supplanted by anger and chauvinism, but surely the most prevailing sentiment of any right-minded sportsman must have been one of shame after the degradation of the first 20 minutes.

Not even the last gripping quarter of an hour could erase what had gone before. Those last moments induced hysteria in both camps as first Rees scored for Wales to give them an 8—6 lead with four minutes to go and then Hare put over his third penalty to win the game for England on the stroke of time.

There were unprecedented scenes of jubilation after an incredible finale.

It is now a matter of history that Ringer was sent off after only 13 minutes for a late tackle on Horton. Prior to that there had been utter bedlam everywhere with indiscriminate use of the boot and fist. What a ghastly advertisement for the game! One wonders where it will all end.

It was a most difficult game to referee and Mr. Burnett needed eyes in the back of his head at times. Thank goodness linesmen can now advise the referee.

It could well be argued that Ringer's selection was irresponsible after the French game. His absence possibly cost Wales the game, for their 14 men more than held England. I am sure they would have won playing their natural game because the football came almost solely from Wales.

There was a titanic struggle between Price and Cotton in the scrum. After some early discomfort, Cotton was able to counter the physical pressure and of course Price was given no push from a flanker.

Later England were able to successfully wheel Wales but this was understandable as the Welsh pack began to tire. Price put his tremendous tackling in the open and with Martin dominating the middle of the line and Squire the back, Wales were able to clear their own line when England put on the pressure.

For this they had to thank Holmes and Davies at half-back. Davies kicked prodigiously to send England tottering back to where they had started from.

It was one of the finest displays of fly-half play and Holmes, as usual, turned himself into an extra wing-forward.

Part of England's plan was to bottle up Holmes and I have never seen him so restricted. Smith harried him, Neary and Uttley, before going off at half time to be replaced by Rafter, tackled him remorselessly. That Holmes still managed to get the ball away so well was a mark of his class.

Wales' weakness was on the wings, where both Keen and Rees were in trouble against Carleton and Slemen. Keen had plenty of the ball but not sufficient pace.

What finally ruined Welsh hopes was their poor goal kicking. They tried four kickers, who shared seven misses.

Hare's success ratio was much better—and decisive.

There is no much doubt that this England side is lopsided in its strength, but so what? The pack is the best since the late fifties. Neary covered acres of ground in defence and one must not forget the donkey work done by the tight forwards, notably Blakeway, Wheeler and Beaumont.

What was disturbing, however, was the way England almost threw the game away. Smith yielded a soft try after Hare's opening penalty and then Phillips charged down the scrum-half's kick for Rees to score.

Yet England would never have been in that area of the field at all, if Scott had not previously bungled the heel from a scrum on the Welsh 22. Holmes pounced on Smith and there was a penalty kick which Davies sent back into England's half.

The distribution at the base of the scrum requires some attention because Smith needs the ball with room and protection.

England defend well and they must at least share the championship. After so many years in the wilderness, it is comforting to find an oasis of success.

● Yesterday Ringer was suspended for eight weeks following a meeting of the International Disciplinary Board in London.

SOCCER BY TREVOR BAILEY

The case for player-managers

AS EXPECTED, Ipswich, who have put behind them a disastrous start and are now one of the most consistent teams in the First Division, moved into the sixth round of the FA Cup at the expense of Third Division Chester in a thoroughly entertaining contest. Although their 2-1 victory at Portman Road was deserved, it was by no means as clear-cut as might have been expected, again emphasising the ever-narrowing gap between the divisions.

While the home side were struggling to find their touch, and only their Dutch duo displayed the difference in the class of the two teams, the visitors took an early lead with the type of goal not normally encountered in First Division football—a high forward lob which was headed onward into the net. However, the constant pressure afterwards eventually proved too much for Chester, and Ipswich drew level and took the lead before half-time with two splendidly taken goals.

After the interval Bobby Robson's side not only failed to turn their superiority into further goals, despite some fine chances, but there were moments, especially in the last 15 minutes, when Chester might have snatched an equaliser.

Although this was not an impressive Ipswich performance, it was easy to see some of the reasons for their recent successes. Obviously they missed the suspended Mariner, who marshals their front line so efficiently and has also been scoring goals, but they are an essentially busy side, who have the ability to upset the rhythm of the opposition. In midfield they have the skill and inventiveness of Thijssen and Muhren and the effort of the less sophisticated and rather awkward-looking Wark, while up front Brazil and Gates create problems through their pace and determination.

Although Mills and Burley form a sharply contrasted pair of full-backs, both have a penchant for moving forward to provide practical support which gives the Ipswich attack another dimension, indeed it was the latter who scored the equaliser.

Chester are a competent Third Division side with a nice balance of youth and experience. They play pleasant, if somewhat predictable football.

They have never reached the Second Division and, if and when they do, one suspects they will not remain too long as they lack both the quality and the regular support.

Although Chester is an elegant town, the club is unable to attract sufficient followers from the surrounding region because it is too close to Manchester and Liverpool. If it had been situated like, for example, Ipswich, who were elected to the League only in 1938 and do not have to contend with any big clubs on their doorstep, they would stand a better chance.

Alan Oakes is the player-manager of the Cheshire side and has done a fine job with limited talent and facilities, including that remarkable victory at St. James's Park in previous round. His young centre-forward, Rush, though ill-serviced and closely marked, still did enough to suggest he could be a success in the First Division, while Storton, who spent several seasons with Liverpool but made only a handful of first-team appearances, is an ideal centre back for a Third Division team.

I have always been an advocate for a player-manager in the lower divisions of the League. If the remainder of my directors had agreed to sign Tommy Docherty in this capacity from Arsenal for a mere £2,000, I am convinced he would have taken Southend United into the Second Division before departing to greener pastures.

The advantages of a good player-manager are considerable. By combining two jobs he saves money. Too many clubs in the Third and Fourth Divisions have ideas above their station and income. More important, the player-manager automatically brings a fresh enthusiasm and a determination to succeed at the start of what he hopes will be a long management career while he has never tasted failure. It is a new job and a positive challenge, and his playing ability should provide additional experience and expertise. The effect of a good player-manager can be seen at Swansea and Blackburn, as well as at Chester.

Initially the directors have to take a calculated risk when appointing a player with no managerial experience, but if they examine his pedigree and character carefully, it should not be much of a gamble.

FINANCIAL TIMES
BRACKEN HOUSE, CANNON STREET, LONDON EC4P 4BY
Telegrams: Finantimo, London PS4. Telex: 8954871, 883897
Telephone: 01-248 8000

Monday February 18 1980

Mr. Haughey's appeal

MR. CHARLES HAUGHEY'S first major policy speech as Irish Prime Minister at the weekend turned out to be a model of restraint which could be usefully emulated on this side of the Irish Sea.

Ireland's main political problems at present are economic. There is a substantial balance of payments deficit, government spending is too high and the tax burden is felt to be inequitable. At the same time industrial relations are not what they might be (the country has inherited the British trade union system) and energy prospects are not good.

Finances

Many of the problems are those of success. Ireland has had a remarkably high economic growth rate over the years. It has attracted a large amount of foreign investment and it has gained enormously from membership of the European Community. The country has become visibly more affluent and more confident.

As Mr. Haughey said on Saturday, however, Ireland has also been living beyond its means. It is refreshing to have an Irish Prime Minister who is prepared to spell this out even at a time when his own party's political fortunes are low. "There is no easy way," Mr. Haughey said, "of getting the Government's finances under control again. It can only be done either by cutting down on government spending or by increasing the Government's income from revenue and taxes or by a combination of both." The signs are that he means it. It is especially notable that he was ready to mention the farmers and the self-employed by name as groups which perhaps pay less than their fair share of tax.

The Prime Minister was no less firm on the question of violence. As has been suspected for some time, it is beginning to look as if Mr. Haughey will take a considerably tougher attitude towards the Provisional IRA than his predecessor, Mr. Lynch. There is no ambiguity about the following statement: "Let us make it absolutely clear that no Irish Government will tolerate any attempt to put themselves above the law or to arrogate to themselves any of the functions of government. There is one army in this state, one police force and one judiciary, appointed under the constitution, to uphold our laws."

The clarity here must be set beside Mr. Haughey's assertion that "Northern Ireland, as a political entity, has failed" and his call for Britain and the Republic to work together to find a new formula. "A declaration by the British Government of their interest in encouraging the unity of Ireland, by agreement and in peace, would open the way towards an entirely new situation," he said.

It is true that again the words were studiously moderate. There was even a personal statement of the Prime Minister's concern for, and understanding of, the Protestants in the north. Any British Government that interpreted his words as unhelpful would be distinctly foolish. The question remains, however, of how hard and how fast Mr. Haughey intends to push for the declaration of British belief in Irish unity.

The time is not yet ripe. There is a constitutional conference in Ulster at present which began with low expectations, but which is making better progress than either Catholics or Protestants imagined. For the moment, the prime objective must be to encourage that conference rather than to look to more grandiose solutions.

Europe

On the longer perspective, however, it seems that some of the Anglo-Irish, if not always the Irish-Irish, wounds are healing. Ireland speaks to Britain as a fellow member of the European Community. The north is no longer visibly more prosperous than the south, and there is a growing awareness that they have problems in common. Catholic and Protestant politicians from Ulster meet each other regularly in the European Parliament. The idea of closer co-operation between London, Dublin and Belfast in a wider European context is becoming more attractive, and more feasible. Nothing in Mr. Haughey's speech should discourage the belief that the horizon is less bleak than it was; nor should the British response.

Change at the top in Poland

COMMUNISM sits uneasily upon the Polish nation. Twice in the last 25 years Communist governments have been overthrown by outbursts of popular discontent. In 1956 Mr. Wladyslaw Gomulka swept into power on the back of a wave of revulsion against the Stalinist past. He in turn was deposed in December 1970, when bloody riots broke out in the Baltic ports. The trigger was a decision to raise meat and other prices. The deeper reasons lay in economic stagnation and political immobility.

Mr. Edward Gierek, a former miner and party boss from industrial Silesia, took over as head of the party and Mr. Piotr Jaroszewicz became Prime Minister. Incredibly, the Gierek-Jaroszewicz tandem repeated the same mistake as Mr. Gomulka in June 1976 by again attempting to raise meat and other prices overnight. This provoked a similar set of riots in the streets of Radom, Warsaw and other towns. The government was forced into a humiliating climbdown and suffered a blow to its prestige from which it never fully recovered. The economy meanwhile went from bad to worse.

True, as Mr. Gierek pointed out in his opening speech to the eighth party congress last week, per capita incomes rose by about 50 per cent in the last decade. More than 450 industrial facilities, some modernised shipyards, coal and copper mines and more than a million apartments were built. Poland today is a much more modern place than it was a decade ago. But most of the gains were achieved in the first five years. Since then, economic growth has steadily declined until last year Poland registered an unprecedented two per cent decline in the Socialist equivalent of GNP. At the same time, the foreign debt has mounted to more than $18bn and this year's total borrowing requirement is about $7bn, mostly to service existing debt.

Democratic

The underlying reason for this state of affairs was succinctly explained by Professor Edward Lipinski, the 92-year-old dissident economist. "The Polish economy's best product is bottlenecks," he said last week. Ironically, his theme was echoed by speaker after speaker at the party congress. Criticism was directed at the government in order to spare the party itself. The men who complained most were those local party bosses whose lives have been made miserable by continuous criticism and the hot breath of popular anger and management frustration.

The fact that such criticism could be openly expressed is a welcome sign that the party is aware of the problems and democratic enough to allow them expression. Criticism was so strong that in the end the Prime Minister felt obliged to resign. That, too, is a significant improvement on usual Communist practice where such decisions are made in smoke-filled rooms by tiny cabals—and much more orderly than the by now traditional Polish method of resignation after riot.

Margin

It is very much open to question, however, whether the sacrifice of an unpopular scapegoat will be sufficient to assuage the desire of the Polish people for more open, democratic and efficient government. The most likely successor to Mr. Jaroszewicz is 52-year-old Mr. Edward Babiuch. Nothing in his past record or those of the other new faces in the Politburo suggests that the changes represent anything more than a reshuffle.

The gap between rulers and ruled in Poland is enormous. Poland is not only devoutly Catholic, it is also profoundly Western in cultural terms. Beneath the exterior of a monolithic one-party state lies a much more vital nation of independent peasants, dissident intellectuals, restive workers and a powerful church.

It is also a country with powerful neighbours. The Soviet Union has shown great caution about direct interference in Poland's affairs since the war. But Poles are under no illusion that the Soviet Union would intervene if it felt that internal developments threatened the party monopoly.

Hungary in the economic sphere and Rumania in the foreign policy arena have shown that East European countries do have a margin of manoeuvre. Liberals within the Polish party and the populace at large hope that the new governments will make greater use of this margin to press for detente abroad and economic reform and greater freedom of expression and political participation at home. This is the best way of defusing a potentially explosive situation.

The Fed shifts gear in face of inflation

BY STEWART FLEMING IN NEW YORK

WHEN Federal Reserve Board chairman Mr. Paul Volcker appears before the House Banking Committee tomorrow to report on the Central Bank's conduct of its monetary policy, it will be against the background of a serious deterioration in the inflationary outlook and another abrupt shift in Fed policy in the direction of tighter credit.

On Friday, after weeks in which the financial markets have been registering their deepening fears that the U.S. could now be facing not months but years of close to double digit inflation, the Fed announced a full percentage point increase in its discount rate to 13 per cent, a move which quickly began to drive other rates, including the bank prime rate, higher.

Even in the wake of the announcement, however, the markets were registering their doubts about its effectiveness, in part because they want to see how boldly the Fed follows through by curbing the growth of bank reserves, but also because of growing doubts as to whether monetary policy is equal to the daunting task it is now facing.

Prime rate jump

The Fed's latest shift towards tighter credit comes only five months after the Central Bank, in response to mounting pressure on the dollar, announced on October 6 a drastic overhaul of the methods by which it conducts monetary policy. That package, too, drove interest rates sharply higher with the prime rate for example jumping from 13½ per cent to 15½ per cent in a matter of weeks.

It coincides with evidence on Friday of a resurgence in the growth of money and credit in the U.S. and a darkening of the inflationary outlook.

An hour before the discount rate move, the Carter Administration announced that wholesale prices in January rose at an annual rate of 19.2 per cent, the biggest monthly increase in five years.

Privately, moreover, senior Administration officials conceded that the January Consumer Price Index to be announced on Thursday could be in the 17 per cent range (compared with the 13.3 per cent increase in all of last year) and there are fears that the nation may be facing several more months of inflation at this pace.

While such forecasts in part hinge on the growing weight of housing in the Consumer Price Index, the evidence of the breadth of the acceleration in inflation indicated by the January wholesale price rise (which does not include a major housing component) poses a serious challenge not just to the Fed, which is fighting the inflation battle virtually alone, but also to President Carter.

Mr. Carter is forecasting a 10.4 per cent rise in the consumer price index this year. So the threat that consumer prices could, at least in the early months of the year, rise at close to double that rate provides explosive ammunition to both his Republican rivals for the presidency and also to Senator Edward Kennedy, his challenger for the Democratic Party's nomination.

Senator Kennedy has already brought inflation to the forefront of his campaign by joining those calling for mandatory price and wage controls to curb inflation. Others, including Dr. Alfred Kahn, the President's adviser on inflation and in recent months a politically isolated figure, are pressing for credit controls.

It is not just on the inflation side, however, that the President is vulnerable. The new round of interest rate increases will expose him to charges that his policies are courting a deeper recession than the one he is already projecting. There may well be unpredictable financial and industrial repercussions depending on how far the Fed presses its latest moves.

There are already anxieties about the impact of high interest rates on savings banks in the north-east of the country, and the collapse in bond prices will have weakened the capital bases of insurance companies at a time when the profitability of underwriting insurance is declining.

For several weeks the financial markets have been signalling their awareness of the deteriorating inflationary situation to which the Fed is now responding. In the six weeks since the beginning of the year billions of dollars have been wiped off the face value of long-dated bonds as the bond markets have suffered their steepest decline in modern U.S. financial history.

Commodities speculation

This month yields on Government bonds have soared through first 11 and then 12 per cent, having only reached 10 per cent for the first time last October.

The commodity markets, too, have been gripped by speculation by investors seeking to profit from the inflationary fever. But perhaps the most remarkable reversal of form has been seen in the market for ordinary shares.

Throughout the 1970s both large and small investors sensed that ordinary shares were an investment to avoid as inflation accelerated. Pension funds, among the larger institutional investors with assets of $200bn, steadily reduced the proportion of their assets in shares and increased their bond holdings.

Since the beginning of the year, however, there has been growing evidence in the form of the rise in the share indices, the growing volume of institutional activity, and strategic decisions by individual pension funds to increase their ordinary share holdings, that some investment managers are turning to stocks, particularly those with natural resource assets like the oil companies, as a defence against inflation.

Consumers, too, have been reacting swiftly to accelerating inflation and confounding economic forecasts in the process. In the past three years they have been buying houses as a hedge against inflation, but tighter credit has begun to crimp this form of investment.

More recently consumers have been further running down their savings to historic lows and going deeper into debt to maintain their standard of living in the face of the erosion in real income last year and to buy in advance of inflation.

At the beginning of the month, in testimony on Capitol Hill, Mr. Volcker was publicly at least, still maintaining some cautious optimism about the Fed's monetary policy in the face of the adverse developments in the markets.

Describing the results of the Fed's October 6 anti-inflation package as "remarkably on target," he cited an easing in the growth of credit and money supply growth in the wake of that announcement. But he warned that the unexpected oil price increases in December had put back hopes of an improvement in the inflationary outlook for three or six months.

Even as he was making these statements, however, economists and bankers were warning that this was too optimistic an assessment of the situation. Some were noting signs of a resurgence in credit growth towards the end of last year. Others noted the unexpectedly strong fourth quarter performance of the economy which registered growth of 1.4 per cent in real terms, and signs of continued strength in January, in particular the surge in retail sales.

Budget deficit forecast

With this evidence coming in, some private economists modified their forecasts of a recession this year (although that remains the consensus view) and their hopes for an early easing of inflationary pressures and interest rates.

On top of these anxieties came the publication last month of the Carter Administration's budget proposals and forecasts that the budget deficit this year could be much larger than expected, perhaps rising to around $40bn. The budget proposals were immediately interpreted as being too expansionary particularly when taken in the context of rising defence expenditure and the growing burden of transfer payments due to the shifting age structure of the population.

Fears have been expressed that the expansionary fiscal policy is threatening to conflict with and perhaps overwhelm the Fed's efforts to achieve monetary restraint and this has intensified anxieties about the Central Bank's increasingly lonely role in fighting inflation.

That the Fed has been left to fight the inflation battle so much on its own is in part a reflection of the difficulty of putting together a political consensus to support broader anti-inflation policies. This problem has been thrown into sharper focus as the prices and wage guideline programme has become neutered by political compromises at a time when forthcoming wage negotiation, particularly in the steel industry, could further entrench inflationary expectations.

Another reason why the burden of fighting inflation falls so heavily on the Fed is that it is the only agency which can move quickly to alter the thrust of economic policy. Underlying its role however is the conviction that curbing the growth of money and credit will in time slow inflation. Those who question that view of how monetary policy can work in the U.S. political system are letting their voices be heard more insistently as inflation accelerates.

Some argue that key components in the structure of inflation in the U.S., notably the price of oil and gasoline and food, do not respond readily to monetary policy.

Mr. Bruce MacLaury, the president of the influential Brookings Institution in Washington, who has also called for a mandatory wage and price control programme as part of a broader anti-inflationary policy, says that the emphasis on monetary policy creates a "false sense of security." He argues that we have to be a lot less certain of the links between monetary growth, economic activity and inflation at a time when institutions are accommodating to inflation and weakening these linkages.

Mr. Anthony Boeckh, editor of the Bank Credit Analyst, suggests that the Central Bank, in conducting its monetary policy, places too much weight on the performance of the money supply and pays inadequate attention to the pressures of credit demand in the economy.

There is, too, a growing question mark over what has been perceived to be the Central Bank's too gradualist approach to slowing inflation. Behind the view that an effective way to curb inflation is to steadily apply the pressure of monetary policy runs the belief that too sharp an application of the monetary brakes will lead to recession. This it is argued will in turn be followed by political pressure to over-stimulate the economy and to an even worse outbreak of inflation. In the meantime the economy has been damaged by a "stop-go" cycle and by a recession which can have serious repercussions on the world economy. It is better, it is argued, to try and avoid a recession and tackle inflation slowly.

Critics of this view say that the financial and economic systems in the U.S. are now adjusting so rapidly to inflation that the gradual application of monetary constraint is permitting innovations to take place which blunt the thrust of monetary policy. Gradualism also permits the application of political initiatives which also offset the thrust of monetary policy, for example the measures which have been repeatedly taken by the Carter Administration to protect the housing industry from recession as interest rates rise.

Background of scepticism

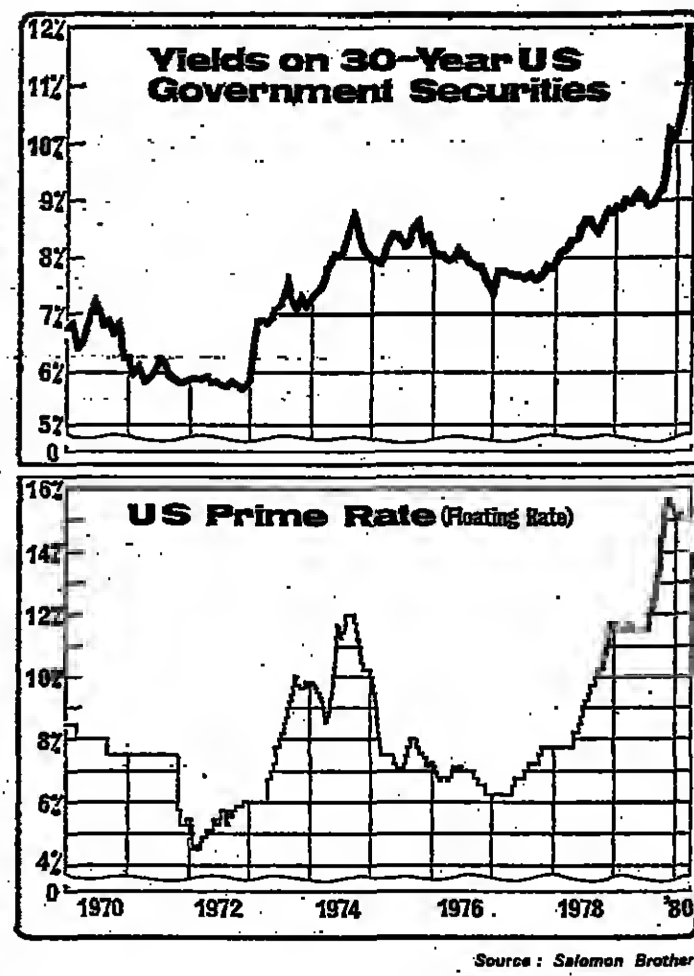
It is against this background of growing scepticism about the effectiveness of the Fed's monetary tools, that the markets will have to assess the latest shift in monetary policy.

They are likely to avoid jumping to conclusions before they have further evidence of just how intensely the Central Bank presses home its move towards tighter credit, especially since the economy, while stronger than expected, has some obvious weak spots which make it particularly hard to judge what impact higher interest rates will have.

But perhaps the most difficult element to judge remains the political forces at work. As a creature created by Congress fighting inflation in an election year the Central Bank will have to tread carefully. Indeed, perhaps the most worrying aspect of the continued inflationary spiral in the U.S. is the lack of a clear commitment amongst voters to a determined and broadly based attack on inflation.

Perhaps too many Americans with their heavy debt burden and their investment in housing, have developed too much of a stake in seeing inflation continue, while those who are suffering—the old, the unemployed and the poor—have too weak a voice to be heard.

Rising unemployment and the rhetoric of the political campaign in the months ahead may begin to change that, however, and make the voters more aware of the link between the relative stagnation in the nation's living standards in recent years and accelerating inflation.



Source: Salomon Brothers

MEN AND MATTERS

Lang takes to the boards

It was rather incautious, I thought, of Hugh Lang to describe himself in a biographical note as "an engineer turned Jack-of-all-trades." Especially odd considering Jack's proverbial lack of mastery and Lang's forthcoming appointment as chairman of P-E Consulting, the management consultancy group.

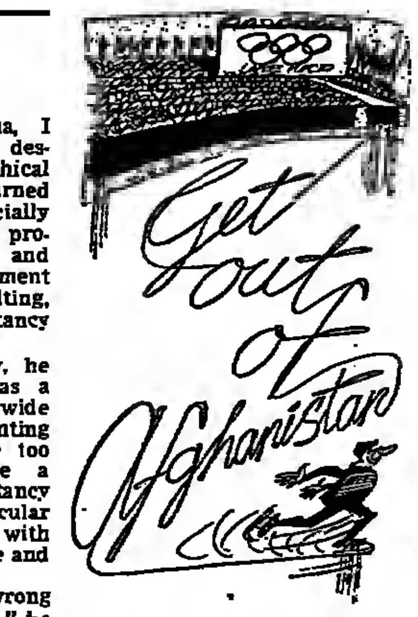
What he meant to say, he tells me, was that he has a strong interest in the wide range of tasks confronting management today. While too modest to claim to be a "master" of the consultancy trade, he admits to a particular preference for dealing with problems of board structure and organisation.

"There is not much wrong with British boards per se," he says, "but a lot tend to work like management committees who spend too much of their time reviewing order books and other operational matters and consequently do not have enough time for strategic affairs. Today a board has to be thinking ahead two or three years."

Lang also has some hard words for managers' techniques in industrial relations. With a nod towards the thickening lines of pickets, he adds: "I must be careful not to upset my clients, but in my view the UK's problems are much more to do with lack of professionalism at management level than with bloody-minded trade unions."

Debs' delight

Clerks rummaging in the files of the National Mutual Life Assurance Society have dusted off an aristocratic curio which will no doubt intrigue my many blue-blooded readers. It is an insurance policy, dated 1927, and headed "Presentation at Court."



Spokesperson Christine, Lady Vavasour tells me it was taken out by "a member of the aristocracy" who, as the daughter came into the world, realised that he really ought to do something about her coming out. He calculated that he would need to stump up some £500 to cover the costs of her debutante season when it came due, and made paternal provision accordingly.

The policy included intimate details of the young fortunate's wardrobe: 10 hats at 3 gns each, 18 pairs of stockings at an estimated cost of £13 10s, and 10 day dresses, including a frock for Ascot, were listed at £84.

Lady Vavasour, whose own daughter will soon be enjoying her "season" assures me, that nowadays a party alone can cost between £1,000 and £5,000, and while tights at £1 a pair are relatively cheap, evening dresses cannot be had for much less than £50 a time. But there is some scope for economy. "Many of the items on the 1927 list are not needed now because they are no longer presented at court. A good pair of jeans at £20 would suffice for many of the do's," she says. "And one hat with a different ribbon for each day would be acceptable today."

Strait-laced

I am happy to see that credit restrictions have not seriously damaged the Irish sense of humour. Philosophical about the current squeeze inflicted by the Central Bank, Thomas Kenny, chairman of the City of Dublin Bank, told shareholders quite cheerily that he expected restrictions on lending to become even more intense. "In the United Kingdom they describe it as the corset: the Irish variety must be of early Victorian origin because it has so many strings attached."

Neither, it seems, has Kenny's line in blarney been dented by the pressures. "I am glad to report that our profits for the first quarter have exceeded our targets," he added soothingly. "But these targets were set, in profit terms, below those for the like period of last year."

Rolling again

The scheme to set the Orient Express steaming across Europe again is rapidly approaching its final stages. Sea Containers, the U.S. owned company behind the plan, is advertising for a marketing director ("a good track record is important") to sell the package to that elite band with both funds and time enough to enjoy a 24-hours-plus trip from London Victoria to Venice.

Thelma Stevenson, in charge at the London end, tells me that the company has now bought 33 old railway carriages and is having them stripped down and dressed up in a blend of *art nouveau* and *art deco* ready for the off in April next year.

Sentimental commuters will be glad to hear that while she has managed to track down some of the original Orient Express rolling stock, her company is also renovating British Rail's cast-offs from the Brighton Belle and the Bournemouth Belle.

I fear, however, that BR kippers will not be on the menu. "The food is going to be superb," promises Stevenson, who will begin searching for chefs and other staff next year when all the necessary bits of train have been assembled for the off. Finishing touches to timetables and routes will be made at the end of this month. Sadly, however, trippers will have to be satisfied with diesel and electric locomotives hauling them across Europe. "But you never know," says Stevenson. "Perhaps Peter Parker will lend us a beautiful old steam engine for the inaugural."

Traffic ban

The population of Tehran was stunned yesterday by a decree banning all private vehicles from the city for three days later this week. Since there are no suburban trains, no metro and pitifully few buses, normal business and life in the capital are certain to be hopelessly disrupted. The ban has been imposed to give the authorities a chance to look at the streets which are normally jammed solid every day in the hope of drafting schemes to alleviate the congestion and pollution.

At the best of times, my man on the spot tells me, Tehran's traffic police are totally ignored. Drivers tend to switch from side to side of the road as the mood takes them, and red lights are generally seen as "go" signs; so it was all the more odd to see that the authorities said the success of the scheme would depend largely on the citizens themselves.

Observer

FINANCIAL TIMES SURVEY
Monday February 18 1980

Euromarkets

The 1970s saw an international capital market emerge of an importance that rivalled the significance of domestic capital markets within their own frontiers. The question for this decade is whether the Euromarkets can sustain the role expected of them.

The going gets heavier

By Nicholas Colchester

A YEAR ago it seemed ehiefly a question of time before the U.S. dollar, the dominant medium of the international capital markets, would re-establish a base for itself as an adequate investment currency. Some sort of slowdown in the U.S. economy was to put a damper on inflation and cause interest rates to fall. A significant improvement in the U.S. current account would restore faith in the dollar exchange rate.

It has not worked out that way. We are still waiting for these changes to come througb with, *on the one* band, a growiog feeling of fatalism as to whether they will have the desired impact on U.S. inflation, and, *on the other*, a perception that the problems of the dollar exchange and interest rates have been eclipsed by a more fundamental *threat*. The question for the investor as to which currency, and in what form, seems to have been superseded by the question whether money of any sort remains ao adequate store of wealth for those across the world who are in a position to *amass* it.

On the U.S. side, the fatalism derives from the failure of last October's change in U.S. monetary *policy to remove* scepticism about the dollar and its rate of inflation. It is still too early to pass judgment on *the Fed's commitment* to a more rigorous form of control of the U.S. monetary base, with interest rates no object. But *the* suspicion is already growing that the Fed has found it impossible to accept the level of interest rates which full application of its new principles was throwing up.

In the meantime, the focus of American politics has shifted from the question of inflation to the question of foreign policy, Iran and Afgbanistan, with consequences—such as a greater emphasis oo U.S. defence spending—wbich do nothing to improve the outlook for the international *supply* and demand for dollars.

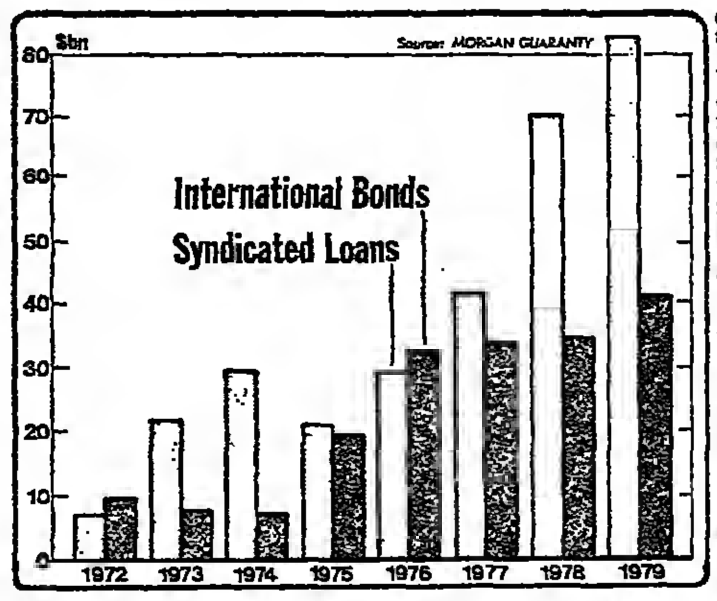
The chief evidence of a mistrust in currencies in general bas been the astonishing rise in the price *of* gold and of other precious metals. This time last year gold cost $248 an ounce and silver £3.47. Today, they cost $715 and £17.00 respectively. Moreover, whereas the gold price till October last year tended to rise during phases of dollar weakness, its renewed strengtb during the winter was not accompanied by currency crises. Currencies were being devalued against commodities more *or* less uniformly.

Today it is not just the dollar for wbich gloomy arguments are beard. The German mark and the Swiss franc are suffering from intermittent absence of investor support despite the reputations of these countries for responsible mooetary management and a tradition of "living within their means." In contrast, the British pound *sterling, whicb cannot lay claim* to such a traditioo, is now popular internationally as an investment because it is *supported by* "real" *wealth* in the form of North Sea oil.

Dimension

These developments suggest that the "diversification" of international funds aod central bank reserves into a spread of currencies, which was already accepted as one of the facts of financial life a year ago has oow taken on a new dimension. And it makes the IMF's planned "substitution accouot" look increasingly like a solution to yesterday's problem. This account is an attempt to provide central banks with a way of diversifying from the dollar into a basket of curreocies without causing disruption in the foreign exchange markets. It is significant that the idea is now being canvassed that the value to the investor of this SDR "basket" sbould be underwritten with the IMF's gold holdings.

In the weeks sioce the oil price rise agreed by the OPEC countries, just before Christmas, there has been a gradually increasing tendeocy for the Finance Ministers and iovestment advisers of tbe richest oil-producing countries to state that unless the West can offer investments of secure real worth, these coontries will come under increasing internal pressure not to invest in western currencies at all but to "keep our oil in the ground."



The long-term upshot of these developments is that the very evident adaptability of the international capital markets may well be put to the test again as the new decade progresses. The 1970s was the decade when *this market* emerged, by a process of natural selection, as the most friction-free conduit through wbich large balance of payment surpluses could be mobilised to finance balance of payment deficits.

But the decade ended with the major investors dissatisfied with tbe real value of their returns and the major borrowers threatened by their mouoting interest costs. So it may be necessary in the 1980s to develop forms of funding wbich give investors real assets in borrowing countries and wbich load borrowers in a manner more closely-linked to tbeir ability to pay. Direct or equity iovestment is an obvious example.

In the short-run, however, nothiog can stop the rapid build-up of OPEC surpluses and oil-user deficits in the year 1980. Quite apart from the external political pressure oo the Gulf States to maintaio their oil output, it is probably fair to assume that the short-term price elasticity of demaod for oil is low. So any cut in output would be largely compeosated for by still higher prices.

Morgan Guaranty's ecooomics team, which has played a leading role in quantifying the magnitude of the recycliog challeoge now being faced by the international capital and banking markets, estimated recently tbat the curreot account surplus of the OPEC countries could total $90bn this year, after official transfers, compared with $60bn in 1979 and with virtual equilibrium *the* year before that.

At the same time, the big U.S. bank said that the non-OPEC developing countries will need to finance current account deficits totalling $60bn—up from $45bn in 1979. Some of this will be finaoced out of tbeir reserves, and some by means of official transfers (aid, IMF loans, etc), but a major portion will again have to be raised through bank borrowing.

This will not be plain sailiog. The international banking business is curreotly uoder a number of different influences, most of which can be expected to restrain the degree of competition between banks as they tackle the business of organising the necessary loans. These factors include:

- The number of oew entrants into the business of international banking is unlikely to be as high in the future as it was during the past decade. Most of the world's significant banks have already joined the game.
- *The* arguments over the Iranian deposits in U.S. banks has heightened everybody's perceptions of political risk in international *banking*, both *for* baoks and for depositors.
- The regulatory climate in wbich tbe banks operate is gradually stiffening up. There is a concerted move to monitor the exposure of each bank's worldwide operatioos to each particular borrowing country.
- The oil price rise has meaot that many less developed countries will be borrowiog this year because they bave to, rather than because they choose to, as was often the case during the recent phase of reserve building or "excess borrowiog" by those countries.
- Simple calculations suggest that terms on loans *negotiated* last year, before the Iranian shock, had reached a point where they allowed nothing at all for possible loan losses, if an adequate return on capital was to be made. It was partly because interest rates were rising that competition was able to force the industry into this situation. In a rising interest rate environment, the *marginal costs of funds*, to which all loan interest rates are geared, lies above the average cost of funds with which banks finance themselves. A decline in U.S. short-term interest rates would reverse this position.

Considerable

The impact of regulatory constraints is likely to be consider*able. The Bank of England* has tightened up capital requirements as part of a drive towards more clearly defined banking *regulations. It is now* monitoriog the country risk of all British banks. The U.S. authorities are watching country risk quite *closely*, and *it is* clear that shortage of capital has already had the effect of curbing the participation of U.S banks in the syndicated loan market. The Japanese authorities are about to define more precisely the terms on which Japanese banks can compete in the loan market, after a ban on all activity lastiog several months.

If a combioation of regulatory aod interoal constraints holds back the banks this year, it may he that the bond market will be asked to reassert itself again, as it did in the wake of the Herstatt Bank's collapse in 1974 (see chart). The chart in one sense, understates the shift in recent years in favour of the syndicated loao in that last year a high proportion of the dollar bonds issued were floating rate notes.

FRNs, which accounted for 40 per cent of the $12bn io Eurodollar honds floated last year, are chiefly issued by hanks as a means of funding syndicated loans. Without such notes the volume of dollar bond financing would bave been lower last year than it was the previous year.

The last year has been a most depressiog time for both investors and banks in the ioternational dollar bond markets, as articles later in this survey describe. It is a bitter irony that a number of international banks, lured by the prospect of investment hanking's fee income, have established a presence in the secondary market

CONTINUED ON PAGE III

CONTENTS

EUROMARKETS II

Testing year for flow of world funds

INTERNATIONAL LIQUIDITY

KEVIN PAKENHAM

INTERNATIONAL BANK activity is going to show another substantial rise in 1980 (an estimated 20 per cent increase in the supply of bank credit).

Since the end of 1976, the international banks have experienced three years of continuous boom, both providing funds themselves and arranging for the provision of new credit. They have acted as most effective and willing intermediaries in an international economy desperately in need of equilibrating capital flows. But 1980 will present new and more testing problems—greater even than 1974 and 1975.

A review of the Euromarket statistics for 1979 and estimates for 1980 show the scale of change necessary in the current year. Using the sources and uses approach popularised by the Bank for International Settlements, Table 1 highlights the rise of OPEC and source of funds to the Eurocurrency market: a $40bn increase over 18 months from June, last year. As an almost exact counterpart the non-oil less-developed countries (LDCs) are anticipated to borrow directly from the Eurocurrency system an additional $38bn. This is the most obvious shift in supply and demand patterns disrupted by the renewed rise in the price of oil.

In the period 1977-79, the flow of funds through the international markets has been notably without strain for the borrowers, but the outlook for 1980 suggests a considerable reversal. Greater attention to creditworthiness is becoming a feature of the bank credit and bond markets, and credit conditions are deteriorating for those institutions with heavy financing needs.

Banks are likely to be both less willing and less able to accommodate the financing flows to the lesser-quality borrowers—less willing because of the increase in perceived risk, both economic and political, and less able because of the increasing balance sheet pressure born of inadequate capital resources and insufficient earnings growth.

TABLE 1: EUROMARKET FLOW OF FUNDS 1977-1980

$bn	Dec. 1977	Dec. 1978	June 1979	Dec. 1979	Dec. 1980
SOURCES					
European area	117.3	144.5	163.0	181.0	235.0
OPEC	54.5	54.7	58.6	68.6	98.6
Non-oil LDCs	29.6	39.8	44.6	46.0	38.0
Offshore bank centres	33.4	45.4	46.0	56.9	64.0
Eastern Europe	7.0	8.8	7.8	8.2	7.0
Other developed countries	18.8	26.2	28.1	31.1	34.0
Canada and Japan	8.4	13.0	13.9	14.2	14.0
U.S.	25.4	37.0	42.3	46.5	56.0
Unallocated			7.7	7.0	7.3
TOTAL	300.0	377.0	412.0	459.5	555.6
USES	Dec. 1977	Dec. 1978	June 1979	Dec. 1979	Dec. 1980
European area	110.4	139.5	147.6	155.6	185.0
OPEC	15.7	24.3	26.3	28.0	33.0
Non-oil LDCs	30.3	40.1	48.7	66.0	86.0
Offshore bank centres	43.9	55.0	59.1	70.0	90.0
Eastern Europe	25.7	31.4	32.6	34.5	37.5
Other developed countries	30.8	34.7	36.1	39.1	46.5
Canada and Japan	18.7	24.6	27.5	28.5	36.5
U.S.	21.3	24.6	30.4	32.8	34.1
Unallocated		3.0	3.7	5.0	7.0
TOTAL	300.0	377.0	412.0	459.5	555.6

Sources: Bank for International Settlements, 1977 to June, 1979; Amex Bank estimates (Dec., 1979) and projections (Dec., 1980).

Widened

These trends will be in evidence in the medium term credit markets in particular. In 1979, average spreads over the London Inter-bank Offered Rate (LIBOR) for all borrowers fell to a low of 0.74 per cent a year and average maturity reached as long as nine years nine months. The top quality borrowers commanded spreads of ⅜ per cent over LIBOR and final maturities of 15 years. But, already in early 1980, these terms are no longer easily available and as a rule of thumb spreads over LIBOR have widened by ⅛ per cent and maturities reduced by two years.

Similarly, in the Eurobond markets, the explosion of issues of floating rate notes (FRNs) by names that are new to the market, at terms previously reserved for triple A risks, is beginning to abate. FRNs were being issued at the annual rate of $5.6bn in October and November last year, and this is unlikely to be maintained. Total dollar FRNs reached about $4bn for the year as a whole, out of a total Eurodollar bond issue of $10.6bn. Euro and foreign issues as a whole reached the record level of $38.2bn.

These particular features of the market noted above are revealed in aggregate by the eight sector breakdown of sources and uses in Table 1. This table only captures flows which impinge on the commercial banks in the reporting European area, but even so is the most accurate picture of the international financial markets available.

(i) Reporting European area: In 1980 there is likely to be an increase of $54bn in the total deposits in the European reporting banks by European residents and quasi residents, including OPEC placements in trustee accounts in Switzerland. OPEC trustee funds in Switzerland could be as much as $15bn higher than in 1979 and result from the higher OPEC revenues and an expected desire to place funds in politically less sensitive areas.

At the same time, there will also be a sharp rise in the borrowing activity of European residents *vis-à-vis* the reporting area banks, with the financing of the West German current account deficit likely to account for some $6bn of the $29bn increase in "uses."

The European reporting area should be a net supplier of funds to the Eurobanks by over $50bn at end-1980. This compares with the net supply of $25bn in 1979.

(ii) OPEC: The projected increase in OPEC's current account surplus to perhaps $100bn in 1980 continues the major turnround in OPEC's position with the market.

In 1980, the gross supply of funds from OPEC directly placed in the market (i.e. in addition to the funds placed in Switzerland and in other financial centres) will rise from $58.6bn in June 1979 to $98.6bn estimated for end-1980. Netting out borrowing by OPEC from the market, this points towards a $65bn net supply of funds end 1980: after an estimated $41bn net supply in 1979 and $32bn in 1978.

(iii) Non-oil-producing developing countries: While OPEC and the European countries show a major shift to being major suppliers of new funds to the market, the non-oil, less-developed countries (LDCs) are once more going to be increasing users of European currency finance. They are likely to need an extra $32bn this year adequately to cover their projected current account deficits (forecast at around $70bn in 1980).

To slow the growth in banks' exposure in LDCs, some of this requirement will have to be covered by a reduction in international reserves, which many countries are well placed to do after the strong increase in reserves in the past two to three years.

Nonetheless, there is likely to be an increase in gross borrowing of $20bn in 1980, well above previous levels, and a further $12bn of loans can be expected to be booked through offshore banking centres.

In the past five years the developing countries' sources and uses of Eurocurrency finance with banks in the European reporting area have been close to balance.

This is likely to have changed radically by the end of 1979 to a $20bn net usage position which by the end of 1980 could be close to $50bn. If this proves unacceptable then both a further running down of reserves and a reduction in borrowing will be necessary.

(iv) Offshore banking centres: The banking centres of the Caribbean (Nassau, Cayman, Panama) and of the Middle East and Asia (Bahrain, Singapore) will continue to be used in the extension of credit, particularly by U.S. banks. This has been stimulated by the change in domestic U.S. reserve requirements made November last year.

In addition, the offshore banking centres typically on-lend to finance the neighbouring developing countries, so their growth reflects the increased current account deficits of this group. Hence, they may draw more heavily on the Eurobanks for funding so an increase in their usage of $20bn is projected. Their net dependence on the market may reach $26bn by the end of 1980, an increase of $13bn since June 1979.

(v) Eastern Europe: Considerable uncertainty surrounds the flow of funds to Eastern Europe including the Soviet Union, given the present political climate. Eastern Europe probably requires net new funds of the order of $6bn in 1980. If political pressures lead to a slowdown in growth in lending to Comecon, the figure may be closer to a $3bn increase on the uses side with a decline in reserves of some $1bn.

(vi) Other developed countries: This category includes large Euromarket borrowers such as Turkey, Greece, Portugal and Spain. As with the non-oil producing developing countries, a slowdown in deposit placing by this group coupled with an increase in borrowing is expected. Net use of the market may amount by end 1980 to $12.5bn, up by $4.5bn from June, 1979.

(vii) Canada and Japan: This category is expected to show a decline in deposits with the Euromarket and an increase in borrowing, pointing towards a significant net use of funds from the Euromarket. This is based upon the assumption of net borrowing by Japan in the market of some $7bn, in order to finance the expected $10bn to $15bn current account deficit.

Change

The table does not capture the change in direct lending conditions between Japanese banks and the rest of the world. However, controls by the Ministry of Finance of Japan and the Japanese deficit will lead to a continued diminution of direct Japanese bank lending.

(viii) U.S.: The U.S. will be a continued net source of funds to the banks in the European reporting area. This development has been in evidence since the end of 1977 when the growing weakness of the U.S. dollar stimulated borrowing in that currency.

In addition, U.S. banks have been encouraged to lend overseas through their offshore branches as noted above. The net supply of funds from the U.S. jumped by $8.5bn in 1978 and after stabilising on a net basis in 1979 may rise by $7bn this year.

A wider but less clear picture of international bank activity can be acquired from Table 2. The table covers all external assets and liabilities of industrial countries' banks and their foreign branches. The scale of double counting and inter-bank transactions makes it difficult to derive the true extension of credit to final borrowers from this wider picture. But it does demonstrate the phenomenal growth of all international bank activity over the 18-month period and the growing level of total assets held with non-oil developing countries. There is every reason to suppose that 40 per cent increase in total assets over the 18 months will be repeated over the subsequent 18 months to the end of 1980.

Mr. Pakenham is an executive director of Amex Bank Ltd.

TABLE 2: EXTERNAL POSITIONS OF BANKS IN THE REPORTING AREA

—AND OF CERTAIN OFFSHORE BRANCHES OF U.S. BANKS

Banks' claims on: ($bn)	Dec. 1977	Dec. 1978	June 1979
Group of Ten countries and Switzerland	349.9	466.9	490.2
Offshore banking centres*	98.9	123.5	132.9
Eastern Europe	38.3	47.5	49.5
Oil-exporting countries	39.1	56.4	57.7
Non-oil developing countries	98.7	121.7	136.6
of which: Latin America†	65.9	79.9	88.4
Middle East	5.2	6.5	7.3
Other Asia	30.5	34.3	29.3
Other Africa	7.1	11.0	11.6
Total	689.7	892.1	946.5
Banks' liabilities to: ($bn)			
Group of Ten countries and Switzerland	408.5	533.5	576.6
Offshore banking centres*	71.5	96.9	115.4
Eastern Europe	8.4	10.6	9.9
Oil-exporting countries	77.9	82.5	87.3
Non-oil developing countries	62.0	77.1	83.9
of which: Latin America†	25.2	33.2	35.4
Middle East	10.0	13.8	15.2
Other Asia	20.1	22.7	25.6
Other Africa	6.7	7.4	7.7
Total	671.2	855.2	933.3

* Bahamas, Barbados, Bermuda, Cayman Islands, Hong Kong, Lebanon, Liberia, Netherlands Antilles, New Hebrides, Panama, Singapore, other British West Indies.

† Including those countries in the Caribbean which cannot be considered as offshore banking centres.

Source: Bank for International Settlements.

Signs of easy credit coming to an end

SYNDICATED LOANS

FRANCIS GHILES

SYNDICATION OF medium-term Eurocurrency loans among international banks expanded to more than $82bn last year from $70bn in 1978. The market was characterised by a further lowering of lending spreads over the London interbank offered rate and by a lengthening of maturities for most borrowers. This occurred because the amount of money and the degree of competition within the international banking system enabled borrowers—who have come a long way in recent years and become far more adept at haggling over terms with banks—to hold the whiphand and—at least until last autumn—virtually dictate the terms on which they were prepared to borrow.

As the second half of 1979 wore on, however, borrowers began to experience more effective resistance by banks to such favourable terms to the borrower. At the start of 1980 there are growing signs not only that borrowers are—with some notable exceptions—having to pay much more for the money they raise in the form of syndicated loans but that a decade of access to easy credit may have come to an end.

The first sign of change occurred as far back as July-August when U.S. regional banks started dropping out of the market. These banks would underwrite between $1m and $5m in many loans, but as spreads fell to rock-bottom the return for such banks proved unattractive as they could not top up the spread with a portion of the management fee.

The net result of the disappearance of these U.S. regional banks from the market was to usher in the "club" loan. These are Euroloans fully underwritten by a small number of banks. Such deals favour the larger institutions which alone have the financial muscle to underwrite considerable amounts of money; the borrowers were pleased to find they had achieved yet finer margins but failed to realise at the time that they had won a *hollow victory*. By *squeezing* smaller banks out, a limited number of managers would rapidly reach their self-imposed internal ceilings on lending to individual countries.

Pressure

Some countries — such as Brazil and the Philippines — went a step further and asked their central banks to call on all the Western banks with which they had deposited funds and put pressure on them to join the loan, in effect to become managers of a "club" deal. The loan for the Philippines completed earlier this month was a striking success; the lead manager was the central bank of the Philippines and the initial amount was doubled to $200m.

The $1.2bn loan for Brazil completed late in 1979 was not lead-managed by that country's central bank but the method used was the same as in the more recent case of the Philippines loan. It was a one-off coup, as by early this month no Brazilian borrower had awarded a mandate to a bank to manage a major loan. Yet the country's needs this year are very great both to refinance its outstanding debt and raise fresh capital—possibly as high as $18bn—and to start funding such needs a month after the start of the year suggests that bankers are strongly resisting those in Brazilia who are seeking to continue to borrow on very fine terms.

As the autumn of 1979 approached a growing number of large U.S. banks started drawing the line and refusing to participate in loans which boasted spreads of below ¾ or ⅝, let alone ½ per cent above the London interbank offered rate.

Another development occurred last summer which also had a profound effect on the syndicated loan market. The Japanese Ministry of Finance decided to prevent Japanese bank participation in any given loan from exceeding one third of the total amount underwritten. In September that proportion was reduced to 20-25 per cent and in October Tokyo simply decided to refuse to allow Japanese banks to participate in major syndicated credits, the only exception was granted in favour of a $1bn loan to Brazil.

Timetable

As Japanese banks had increased their participation in syndicated credits in 1977-79 and often bid very aggressively for mandates, their absence was keenly felt. However, by early February 1980 there were signs that the Japanese Ministry of Finance would soon make clear the timetable and conditions for ending its ban on commercial bank participation in international syndicated loans.

The Volcker package announced early in October 1979 and aimed at reducing the growth of the U.S. money supply had a very quick impact on lending by U.S. institutions. It increased the cost of funding for the U.S. banks very suddenly and thus *made them very nervous* of loan commitments.

The crisis in U.S.-Iranian relations which led President Carter to order a freeze of Iran's assets held in U.S. banks, and the legal imbroglio which followed, combined at the tail end of the year with Russia's invasion of Afghanistan to bring the market virtually to a halt. A few "club" deals continued to trickle in but when France's Caisse Centrale de Co-operation Economique, a prime borrower by any standards, tried to arrange a loan through Credit Lyonnais late in the year the lead manager was forced to cut back the *amount*.

Later signs were emerging that most borrowers would have to pay more. A mandate was won earlier this month by Commercial Banking Co. of Sydney and Merrill Lynch to arrange a $50m 15-year loan for the Electricity Commission of Victoria (Australia) on a spread of ½ per cent for the first five years, ⅝ per cent for the following five and ¾ per cent for the last five. This deal was viewed by many bankers as the exception to the rule of rising spreads but they agreed that New Zealand, France and possibly a handful of other prime quality borrowers which are considered "underborrowed" might get away with equally fine conditions.

But other deals for Spanish and Latin American borrowers strongly suggest that borrowers will have to pay much more this year than last if they want to raise loans. The maturities are also shrinking but how fast the market turns into one where the lenders enjoy the upper hand is anyone's guess. Some bankers are optimistic, others less so—not least because of the large and increasing amounts of OPEC liquidity which are likely to flow through the international banking system. The pessimists are wont to point out how great the borrowing needs will be this year—both of industrialised and less developed non-oil producing countries.

That these two groups will be most in need of raising large sums of money suggests the most likely outcome is a marked differentiation of spreads as between borrowers. The quality of the risk they are taking on their books will become important once again and a wide graduation of conditions will prevail, based on bankers perception of the financial economic and political outlook of given borrowers.

Many signs point in this direction but how long it will take for this trend to become established is still far from clear. Publicly syndicated loans are also back and the consensus among bankers is that once spreads are back to more remunerative levels, there is no reason why past practices should not reassert themselves.

The problems of a number of individual countries are likely to confront the market, however, not least among them Brazil and Poland.

Brazil needs a lot of money this year and will have to pay more for it than in 1979. It has large reserves which it could run down but many bankers are convinced that a restructuring—a less sulphurous-smelling word than "rescheduling"—of Brazil's debt is unavoidable. *The banks* are well and truly locked into Brazil in that many of them have a lot of the country's paper on their books—and some an awful lot.

Worried

If past experience on Iran is anything to go by the outlook may not be very encouraging. But to draw parallels may be dangerous. The U.S. *freezing* of Iranian assets ushered in what many bankers in Europe saw as a dangerous politicisation of the Eurocurrency system which has to date been rooted in the fundamental belief that it has been free from political interference and sequestration. European bankers and some central banks are worried that the U.S. may have set a precedent for *similar* action by others in the future, thus jeopardising the Euromarket's basic integrity.

Certain major depositors of funds in the Eurocurrency market—even when at odds with Iran politically—expressed dismay. The Kuwaitis did so in public, the Saudis in private. To what extent this dismay was translated later on in the year into buying gold and other metals is not certain, hnt the impact of the U.S. measures was unmistakable.

The Polish question is of a slightly different nature, but quite as much politically charged. Though many bankers' initial reaction to the USSR's invasion of Afghanistan was to say that conditions for Eastern borrowers would harden faster than would otherwise have been the case and the amounts lent might even be reduced, it would seem that no cold war in credits could easily develop. This is particularly true of Poland, which has a heavy debt and heavy borrowing requirements this year, and where cutting of credit would be tantamount to forcing it into default.

No major loans for Eastern European borrowers have come up these past six weeks, so it is as yet premature to judge how matters might evolve in this area.

Among the constraints many banks are faced with are three important ones. The $30-$40bn increase in OPEC deposits in banks would represent a large increment to OPEC countries' existing holdings of bank deposits which in the middle of last year were estimated at $87bn. Concern about the capital adequacy — *especially* of U.S. banks and least of all French State banks — are likely to limit the amount of lending many banks are willing to undertake. Many European and Japanese banks have increased their international lending very fast since 1977 and experienced as a result a large decline in their capital/asset ratios.

The going

CONTINUED FROM PAGE ONE

for dollar bonds only to find it ravaged by an erratic but seemingly endless bear market.

And if their aim in making a market was to *establish* greater credibility as a lead *manager* and underwriter, this, too, must have provided disappointment.

Competition in the primary market, as in tha syndicated loan market, was intense last year. This brought down underwriting spreads and encouraged the emergence of "fully underwritten deals"—and all in a deteriorating market where terms which seemed fair one day were unsellable the next. These persistently worsening conditions further concentrated the buying power in the bands of investing institutions which demand sizeable *discounts* on new issues and which can prova *formidably sophisticated* clients in secondary market trading.

The bond market generally is in a poor position to provide a larger share of the international finance raqulred in 1980. The outlook for U.S. inflation and long-term interest rates, coupled with the insacurity of the dollar, *mean that current* yields on new bonds of around *13 per cent* are still no enticement to the investor. The FRN market remains theoretically viable, but its reputation took a knock last year, after the "Volcker package," when prices of FRNs proved more vulnerable in *practice than* they should have in theory.

But the number of "windows" which the dollar has already experienced—moments of hope, promptly dispelled, that the great downturn in rates was at hand—by now add up to a large measure of cynicism and apathy on the part of would-be dollar investors. And the outlook for *U.S. inflation at tba time* of writing provides no encouragement that the recent sharp slump in the dollar market was the "darkness before the dawn."

In these circumstances the most viable sort of dollar bond that has emerged is convertible tible floating rate note of which an outstandingly successful example was the issue for *Mid*land Bank in December. This provides the investor with the ability to convert a floating rate security into a fairly high-yielding fixed rate security when and if the long-awaited turn in the long-term U.S. rates takes place.

In past years weakness in the dollar has meant that other currency sectors of the bond market have come to the fore. But recently this has ceased to be the case. The yen market, for instanca, whose Samurai foreign bonds emerged *strongly* in 1978, evoporated in 1979 because of *extremely* adverse conditions in the domestic bond market, and latterly because of the oil-induced weakness of the yen. As this year opens the Japanese Government continues to want capital inflows rather than capital outflows.

Both the Swiss franc and German bond *markets* have suffered as international investors have become increasingly sceptical whether either currency can remain insulated in the long term against dollar inflation.

It is the current feeling of impasse *in the* international capital markets—of a banking system which is showing signs of surfeit as a result of its "recycling" role, and of bond markets which look unlikely to share a major part of the burden—which prompts the suspicion that the financial markets will have to evolve atrikingly in the new decade.

The evolution of the last decade produced today's phenomena—a formidable loan market was barely in existence when the 70s began, and very large, but currently rather less formidable, international bond market.

What will the eighties produce? The Brandt Commission bopes for a revival of the role of the supra-national institutions, which were so eclipsed by the commercial banks in recent years. It wants more development aid and even "international taxation" on trade, travel or arms transfers to ensure automatic flow of funds for *development*.

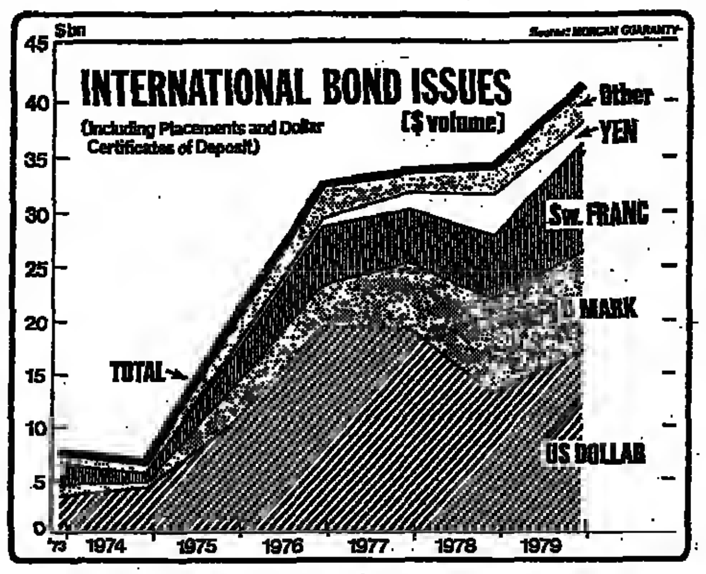
These solutions, which are essentially politically imposed non-market solutions, may well emerge in some form or other; the IMF, for example, could easily become more active as a provider of funds to the Third World, as a complement to the banking and bond markets. And a proportion of what was extended as loans in the last decade could easily be written off as aid in this one.

For a market solution I look to a reversal of the perception that direct, or equity investment is politically unacceptable to the Third World country which receives it and an impossibla political risk for those in a position to undertake it.

EUROMARKETS IV

Attention switched to floating rates

PRIMARY BOND MARKET
JOSEPH N. COHEN



WHILE the international dollar bond market, in general, waited in vain for a cavalry rescue, in the form of a U.S. recession and falling interest rates, the primary market experienced its own brand of anxiety in 1979. In a period when international investors were particularly wary of fixed-rate U.S. dollar bonds, the primary market had to turn its attention, to a large extent, to the floating rate market, the rapid emergence of which was the most important development in the international capital markets in 1979.

This is not to imply that there were not significant "windows" for fixed-rate financing during the year (in the first three quarters U.S. corporations alone raised $1.5bn of fixed-rate bonds), but issuing houses' constant referral to "windows" illustrated the ephemeral nature of that demand.

The floating rate note market itself began to suffer towards the end of the year because of its unwillingness to differentiate between various categories of borrower in new issue pricing. Bank issuers in developing countries insisted on the standard spread of ¼ per cent over LIBOR, and superior credits responded by cutting spreads. Citicorp even achieved a nil spread over the mean between the Bid and Offered Rate, but for a short maturity, which meant this bond could be viewed as a quasi-money market instrument.

New floating rate note issues were quoted at sharp discounts to par in pre-market trading as the year ended. It will be interesting to see whether the market will demand higher spreads over LIBOR in 1980, particularly if spreads in the syndicated loan market widen as predicted.

Fine terms

Paradoxically, many fixed-rate new issues were brought on exceptionally fine terms when markets were so volatile. Competition among issuing houses was often fierce, which enabled top-class borrowers to obtain the best possible terms. Leading sovereign and supranational issuers have always had the reputation of not being tied to one investment bank, but U.S. corporate issuers also showed a willingness to use new lead managers. Chemical Bank International, for instance, achieved a coup in bringing General Motors Acceptance Corporation to the market. Dow Chemical chose European Banking Company to lead one of its issues, and I.T.T. opted for Swiss Bank Corporation.

The appearance of new lead managers is attributable to the greater incidence of "fully underwritten deals." In a fragile market there is much to be said for constructing a management group which commits itself to the entire underwriting on fixed terms. The borrower is then assured of the full amount he requires at a specific rate.

There also emerged a hybrid version of the fully underwritten deal, in which there is a sell-down of the managers' underwriting commitment through a normal underwriting group.

There is little incentive for non-managers to place such issues, however, unless they have significant in-house placing power, because the management group has access to many more bonds and has frequently canvassed major institutional investors around the world up to one week prior to the public announcement of the issue.

It is important to distinguish between warehousing and placing ability in evaluating the relative merits of major issuing houses. Leading universal banks certainly have the funding capability to assume large underwriting commitments, but the ultimate test is the strength of their distribution networks. As the cost of financing unplaced bonds continued to rise through the year, large blocks of recent new issues came on the secondary market, presumably from disgruntled managers, which further depressed prices.

The syndication of new issues was complicated additionally by the activities of the "grey market." This informal network of dealers, who quote pre-market bid and offer prices for most new issues, has been attacked by many issuing houses. They claim that the grey market sabotages new issues by encouraging significant discounting in the price offered to important investors. The grey market's retort is that the primary market has lost touch with reality and that new issue terms at official issue prices do reflect proper market levels.

It seems fairer to say that the grey market merely confirmed the inefficiencies in Eurobond syndication, and that several techniques were attempted to improve distribution procedures. The most important model was provided by S. G. Warburg's $100m issue for Sweden last July, which reduced the full underwriting commission to a meagre one per cent. The issue was severely criticised, particularly by the Swiss and Germans, who are largely insulated from market pressure to discount on new issues, but the success of the deal encouraged many market participants to view it as a precursor of things to come.

It is unlikely, however, that the Swedish example can be generalised, since its short maturity, and the sovereign nature of the borrower appealed specifically to Central Banks, who are conscious yield buyers.

The Sweden issue did confirm the emergence of central banks as an important source of investment demand in the Eurobond market. Other institutional buyers, insurance companies being another prominent example, have contributed to the growing institutionalisation of the market, but it would be a mistake to exaggerate their importance on the basis of mystique alone. In a real sense, it is this process of institutionalisation which has led to the fragmentation of the primary market in terms of pricing.

The perceptible shift in market power in favour of institutional investors has also affected yield relationships between various categories of borrower. When Switzerland dominated the new issue market in the past, Swiss predilection for U.S. corporate paper often permitted less-than-prime U.S. names to be floated at lower yields than "AAA" sovereign obligations. The Swiss, however, were relatively inactive in dollar bonds in 1979, which is confirmed by the decline of UBS and Swiss Bank Corporation in the management tables.

Central banks, on the other hand, are restricted to sovereign and supranational credits and so large institutional buyers either required huge discounts, often as much as the entire underwriting commission, to purchase corporate new issues or waited to pick up paper in the secondary market at more attractive levels.

The Euromarket continued name-conscious in the sense that well-known U.S. corporate credits, such as Dow and Pepsico, enjoyed finer terms than their ratings might suggest.

In analysing what is required for a successful syndication effort there is an interesting tension between the approach of the large universal banks who concentrate on internal placing power and the U.S. investment and commercial banks who stress broad institutional placement, often supported by a strong secondary trading capability.

This tension is epitomised in the controversy over underwriting commissions, but while the Sweden/EDC argument (Export Development Corporation of Canada floated a similar five-year issue at the same time as Sweden, but on a traditional underwriting spread) dominated the headlines with claims and counter-claims as to whose issue traded better in the after-market, no one could fail to notice that traditional underwriting spreads were being eroded on a broad scale. Bonds of seven-year maturity, for example, which used to command 2¼ per cent spreads, were frequently done on 1¾-2 per cent spreads, particularly if the issues were fully underwritten by the management group.

Anonymity

The commitment of portfolio managers to diversify out of the dollar had important implications for the primary market. Investors went where the action was in terms of currencies. As the pound sterling gained in strength throughout the year, the Eurosterling bond market was resurrected.

Interestingly, yields on Eurosterling issues were set below yields on comparable maturity Gilts, which again suggested a desire for anonymity among international investors and their willingness to accept an interest penalty to preserve that anonymity (UK withholding tax on certain gilts is recoverable, but only upon application—with some exceptions).

Euro-Deutschemark bond yields were also below domestic yields for much of the year, given the interest of international investors in a currency which is now considered the most important "hard" alternative to the dollar.

Despite this interest in diversification, "man-made" instruments such as unit of account or SDR-denominated bonds failed to excite investors, although there is much discussion whether the implementation of an SDR-based substitution account by the IMF will give additional impetus to the fledgling SDR sector of the Eurobond market in 1980.

The market's favourite topic of conversation today is the impact the removal of U.S. Withholding Tax would have on international investment flows. Conventional wisdom holds that the Eurobond Market would become a "poor cousin" to New York, which would attract the prime borrowers, while second-tier credits would be relegated to the Euromarkets.

Growing concern

There are good grounds to dispute this claim, given that the Yankee market has existed for five years without dealing a death blow to its Euro-cousin.

Indeed, it is primarily a function of relative interest rates which determines the level of new issue activity in each market. The Yankee Market is particularly attractive because of the availability of longer maturities, but there is a growing concern in New York that a prolonged period of stagflation, combined with high interest rates and continuing inflation, could permanently impair the viability of the long-term market in the U.S.

Under those circumstances, we could see a "Europeanisation" of the American market, where maturities beyond ten years are only available to the most creditworthy borrowers—the U.S. Government, an IBM, ATT and its subsidiaries.

The U.S. bond market could also learn a lesson from the Euro-floating rate note market. U.S. domestic FRN's have historically been tied to Treasury Bill rates, which, unlike a LIBOR-based formula, have little relationship to actual funding costs.

Accordingly, many U.S. floaters are currently trading in the low 90s and have lost their reputation for capital preservation.

A more realistic pricing formula based on the domestic CD rate, for example, could encourage many investors to re-enter this market.

It would indeed be ironic if the floating rate note, which was first popularised in the Euromarket, became the main hedge in the U.S. against double digit inflation. Integration of markets is a two-way street.

Mr. Cohen is a general partner at Kuhn Loeb Lehman Brothers International.

Unpalatable facts to face

SECONDARY BOND MARKET

IAN M. KERR

FOR EXPERIENCED Eurobond traders, 1979 may prove to be the year which made 1974 seem fun. It began poorly and achieved the unusual distinction of maintaining a course of almost consistent deterioration. The root cause was the persistent fragility of the dollar.

It is not possible to isolate the woes of the dollar from other currancies. As dollar interest rates escalated, other countries raised domestic rates to maintain their currencies' parity. There were few victors from the interest rate war which ensued.

Most bond investors lost money in 1979. Most bond trading houses also incurred losses, although there are always exceptions to the rule. The combination of negative carrying costs and the steepest price decline in history have exacted a heavy toll. An inverted yield curve is not a new experience for Eurobond trading houses, but the longevity of the present situation creates a record and new problems. As we enter 1980 there has been no discernible improvement.

The Eurobond secondary market attracted criticism last year, which was to a large extent justified. However, investors were forewarned. In October 1978 I wrote: "The truth of the matter is that the Eurobond secondary market has never been better than mediocre and is in fact getting worse." At that time conditions were difficult but bearable. The ensuing 14 months have brought the market to the brink of collapse. That price quotations were being made at all towards the end of 1979 was remarkable.

One can now make the following assertions about this market:

1—Despite some new arrivals in the Eurobond secondary market, overall liquidity has deteriorated substantially in the last 12 months.

2—At least one-third of all Eurobond issues have no effective secondary market.

3—Almost all the established trading houses have cut back their inventory to some extent in the past year, and have reduced the total number of bonds which they trade.

4—The supposed liquidity of the Yankee market, through its association with the U.S. domestic bond market, has proved to be a myth.

5—There are still only three houses making real markets in U.S. convertible bonds.

These assertions may be unpalatable to many Eurobond market participants. However, this market has buried its head in the sand for too long. The confident claims of three years ago that this was the third best capital market in the world made impressive cocktail party conversation only to an uninitiated audience. In reality you have a fast growing primary market and a contracting secondary sector.

While it is to the market's credit that the present skeletal structure has remained intact, the situation cannot last indefinitely. Last year was probably the one in which the market discovered that it could no longer create even an illusion of depth, and in the final months it had almost resigned itself to that reality.

Hard experience

The pitfalls of 1979 will have been a chastening experience for some of the newcomers to the market. At least a few managers will be ruing the decision taken long ago to begin trading in 1979. It is all too easy to talk about long term commitments to the secondary sector in order to complement primary market ambitions, but supervisory committees at head office may be less sympathetic.

The early omens for 1980 are not good. The year has begun as 1979 finished. The inverted yield curve is now 15 months old. Borrowing through the Eurodollar settlement system costs around 13.75 per cent compared with current yields on an average dollar inventory comprising straights, convertibles and floating rate note issues of less than 10 per cent.

Most potential entrants to the Eurobond secondary market should now find it easy to resist the temptation. Start-up costs are considerable. For most houses it is considered a prerequisite to be based in London, which office space is very expensive. Good traders are difficult to find and, even if worth their weight in gold, generally expect equivalent compensation. Early profits from any new Eurobond trading operation cannot be guaranteed or even reasonably expected.

In a year which most houses would prefer to forget, some names emerged with credit. Selection of individual houses is an invidious task because the criteria for inclusion are not standard. The relationship of major institutions with any one trading house vary considerably. Plaudits and criticisms are often distributed in equal proportions. Also the impressions of a few institutions are not necessarily representative of the whole market. Another important consideration is the high turnover of trading personnel, which has always been a characteristic of the Euromarket.

In the straight dollar market where a good dealing reputation is perhaps the most prized, the success of the Deutsche Bank and Banque Nationale de Paris confirms that a London trading base is not absolutely essential. Salomon Brothers have a reputation for capable handling of major block orders.

Merrill Lynch has emerged from the 1979 debacle with an enhanced reputation for all round service to clients in the bond market. Bank of America International appears to have made a very good impression and has established a clear lead over U.S. commercial banking rivals. In Yankee bonds, Goldman Sachs is one name to receive favourable comment in a sector which has attracted some savage criticism from European institutions. Credit Suisse First Boston and Bankers Trust International are given high marks for trading floating rate notes. In convertibles, trading is still dominated by Kidder Peabody, Merrill Lynch and White Weld.

These names do not portray a complete list and many other houses continue to provide an excellent service to their clients. Strauss, Turnbull and Kuhn Loeb Lehman International are highly regarded.

The overall size of the Eurobond market is such that even a small firm can establish a "boutique" type of operation in one sector of the market and, in reasonable conditions, flourish. Considerable turnover is transacted away from the market place altogether directly between institutions. The "grey market," which would scoop every public relations award in 1979, is increasing its volume to a respectable level.

However, the overall weaknesses of the Eurobond secondary market are painfully transparent to the professional investor. And some of the problems are attributable to short-sightedness in the market itself.

Although secondary market trading has been in existence for 15 years, it has not yet reached a stage of genuine maturity. In its scramble for growth, the Eurobond market neglected several of its constituent parts. The emphasis on trading was such that no one noticed when its importance relative to other necessities had peaked.

Sales and research

An infrastructure encompassing sales and research to complement an established trading operation was ignored. Now that the importance of sales and research has finally been recognised, complaints abound that it takes time to create such an infrastructure. Firms who genuinely wish to expand their capabilities in sales and research have discovered to their dismay that there are perhaps fewer than a dozen qualified professionals in either category.

Training new personnel to become even semi-conversant with some 4,000 Eurobond issues denominated in every currency poses obvious problems.

In the 1970s the Eurobond market pursued growth at all costs and found itself unprepared for the depressions of 1974 and 1979. By the time it was genuinely realised that a fragmented bond operation was not only an ineffective but also a dangerous thing, it was too late to implement the necessary remedies. Few long-term participants would dispute that many of the Eurobond market's present wounds are self-inflicted. The price which the market is having to pay for its own indiscretions will extend into the early part of the 1980s.

The mispricing of new issues, which reached epidemic proportions during the last three years, has compounded the problems of the trading sector. Investors, particularly in the retail category, have become so disillusioned that they have deserted the market in droves. The subsequent market collapse, on top of unrealistic initial pricing, has resulted in major capital losses for some private clients. On too many occasions their exit from the market has been accompanied by the final insult of poor sales execution.

With retail buyers mainly out of the market for the time being, the Eurobond secondary sector has had to rely upon institutional turnover for its potential profitability. The transition has not always been easy. Most of the large Eurobond institutional buyers make no attempt to remain invisible. Consequently, they are covered by all the leading Eurobond houses. Competition inevitably results in lower margins. This subject has been widely discussed with regard to primary issues, but in the secondary market dealers are constantly being required to pare their normal price spreads.

It was this combination of primary mispricing, spiralling interest rates and narrower margins which did such damage in the straight market in 1979. Primary mispricing has become such a way of life in the Eurobond market that it is difficult to imagine that it will disappear. Interest rates will be held high to avert a run on the dollar in the early part of 1980. The little interest being shown in bond markets reflects institutional demand, which does not promise an early restoration to profit margins.

In these circumstances, the Eurobond secondary market, despite well intentioned attempts to restructure internally, seems unlikely to cast off its role of a lame duck quickly. The next two years may well see the influence of trading diminish further as the large Eurobond houses seek to reduce their overall risk exposure and offer clients an overall service in which trading will be only an equal rather than a dominant part.

Mr. Kerr is a member of Kidder Peabody Eurobond Advisory Department.

Shock absorbers for currency markets

EURODEPOSIT RATES

MARTIN TAYLOR

THE EURODEPOSIT markets and their Siamese twin, the forward currency marketa, have been called the shock absorbers of the international financial system. There can rarely have been quite so many shocks to absorb as in 1979, a yaar which—quite apart from the revolution in Iran and the relentless increase in oil prices—brought an unparalleled rise in world interest rate levels.

The monetary authorities in various conntries moved rates up throughont the year, with one eye on containing high credit demand and inflationary pressures in their domestic economies, and the other on protection of their currency. Now that imported raw material costs have to be contained, competitive devaluation bas gone out of fashion, to he replaced hy competitive raising of interest rates.

The shocks culminated in the Volcker package of October 6 last, in which the U.S. Federal Reserve, as well as raising its discount rate, let it be known that it would in future act to control the reserve base of the banking system rather than try to hold short-term interest rates within a narrow band. The immediate result was that U.S. money market rates—led by the freed Fed Funds rate — went haywire.

Although dealings in many markets, notably the Eurodollar hoad market, were virtually suspended, the currency markets seem to have coped reasonably well. Market-makers naturally widened their spreads to defend their positions, which may have made it unattractive for their customers to deal. But except in the very short-dated forward market, it was always possible to deal.

In theory the spot rate relating to currencies and the forward rate at a given maturity—say three months—shonld be entirely consistent with the Euromarket deposit rates in the twn currencies at that maturity. The four variables form an interdependent system which reacts in such a way as to return to equilibrium when any one of the four changes under external pressure.

To take a concrete example, if the three-month Eurodollar rate is 14 per cent and the three month Euro-DM rate 8 per cent, the premium of the three-month mark/dollar rate over the spot rate should correspond to a 6 per cent annual rate. Were this not the case there would be profitable arbitrage possibilities, as a bank could enjoy a higher interest rate with no currency risk.

If the deposit rates were as above, but by some freak the three-month dollar/mark rate was the same as the spot rate, an operator in the market could sell spot marks for dollars, contract at the same time to buy the marks back at three months, and put the dollars temporarily at his disposal on deposit at 14 per cent. Effectively, he would be earning dollar interest rales on his marks.

Ruthless

In practice the theory bolds very well. Commercial banks are ruthless in spotting anomalies and punishing market-makers whose quotations do not reflect a change in relative interest rates.

Market theoreticians, rather than the practical man who actually dn the dealing, are fond of asking the sort of questions that theologians like to dispute—is it the interest rates that move the forward swaps, or vice versa? In quiet markets, as a general rule, it is the swapa that adjust to deposit rate movements, which themselves are influenced beavily by domestic interest rates, particularly in those currencies in which free arbitrage is permitted between the domestic money market and the Euromarket. Naturally enough it is in these currencies—the dollar, mark, guilder, Swiss franc (subject to restrictions on capital imports into Switzerland) and now, since the remeval of exchange controls, sterling—in which the most active and advanced markets have developed.

It is in hectic and disorderly markets, hy contrast, that the forward swap takes over as the prime mover, as when there is a rush by commercial customers to lead or lag a currency *en masse*, and heavy buying or selling on the forward market. In these circumstances dealers, faced with pressure on a particular swap, move interest rates in response.

A more immediate question—certainly for domestic monetary authorities—is the extent to which Eurodeposit rates move domestic money rates. As the Euromarkets grow, it becomes more likely that they will, but to date there is no firm evidence to suggest that domestic rates are affected except at the very short end of the market. Here, banks trying to cover their positions, or to borrow a currency in order to sell it short, tend to use the dnmestic markets as a source of liquidity, provided that exchange controls permit.

The central hanks themselves nperate in the forward markets in a number of ways. Often they will respond to requests from commercial banks to relieve them of certain forward positions and allow them to square their books. Equally, the forward markets can be used for intervention to help control the level of a currency.

When a currency is appreciating, the central bank concerned may prefer to buy in other currencies in the forward market rather than the spot. By this meana the intervention does not show up in the official reserves until the forward transaction matures, and the volume of intervention is disguised. Commercial banks are, in effect, holding part of the national reserves for a time.

On the other hand, if a currency is under pressure, the manipulation of the forward market by central banks acting in concert can drive up Eurodeposit rates in the currency concerned to such a level that operators simply cannot afford to borrow to sell that currency short.

Three-month hedging facilities are available in all currencies usad in international trade, and in most of them swaps of up to a year can be arranged. The increasing sophistication of international trading companies bas assured the forward markets of regular growth (volume in London bas risen particularly strongly since UK exchange controls were abolished) but there are signs that they are no longer being used uncritically. Having learned to hedge as a matter of course, companies are now beginning to ask themselves again wbether or not it might make hetter sense, in some circumstances, to hear an exchange risk. More flexible use of the facilities available, and the development of expertise by the banks which have to advise their customers, argue for more efficient markets in the long run.

London a main centre for dollar CDs

CERTIFICATES OF DEPOSIT

DUNCAN CAMPBELL-SMITH

With the U.S. dollar listing so badly after one storm after another, many investors bave taken to the boats. But not all have bad the freedom to get clear of the dollar, jumping into barder currencies, or gold, or softer commodities. And for many of those left aboard, battening down the hatches bas meant placing as many of their dollars as possible into the sbortest maturities available — in whatever market has offered complete liquidity and the highest rates. In short, tbey have gone for Eurodollar certificates of deposit (CDs).

This new appetite for Eurodollar CDs bas arisen at a propitious time for the banks in the Euromarket. The competition for deposits has remained severe over receot months and seems likely to inereasa. Bankers have therefore taken up the CD issue as an increasingly important, reliahle sonrce of funds.

The result has been a boom in the London dollar CD market. After 12 years of remarkahly steady growth from the market's creation in May, 1966, the volume of outstandings has doubled from $22bn in mid-September, 1978, to $43.4bn in the latest figures, for mid-December 1979.

Professional fund managers have not been behind this increase. On the contrary, they have been deterred hy rising interest rates which reduce the capital value of fixed rate CDs in the secondary market. Rather the boom has reflected the enthusiasm for the market of those tied to the dollar willy nilly — including, most especially, the institutions and corporations of the United States.

Predominant force

The task of attracting domestic American dollars into the London market was begun six or seven years ago. But probably 1977 was the break-through year. And the enormous growth of the market since 1978 reflects the purchasing power of the U.S. treasurers wha now comprise the predominant force in the market.

It offers them a number of attractions. U.S. banks issuing in London do not have to meet reserve requirements and do acknowledge a distinction hetween their credit ratings and those of their U.S. parents. The London market therefore offers higher yields. In 1979 the yield advantage was typically ⅛ to ¼ per cent but it has increased to 60-70 basis points in the first weeks of 1980.

London also offers a degree of liquidity which is comparahle with the New York market—or even exceeds it. Outstandings, dealer inventories and trading volume figures are all approximately three times higger in New York than in London.

But a market's liquidity is s function of its activity relative to its total size. During 1979, tha ratio of trading volume to outstandings has been slightly higher in London than in New York, according to figures prepared by Merrill Lynch.

And third, London presents a full range of maturities and of credits. The concentration on shorter maturities has intensified during 1979 and one to six month maturities at present account for perhaps 85 per cent of outstandings; but paper is available for up to five years or more.

From the point of view of the U.S. purchaser in particular, it is noteworthy finally that the range of available credits includes many regional U.S. banks.

The U.S. banks have been increasingly prominent in the primary Euro-CD market since October of last year. This is a trend which will probably accelerate because the Fed's additional 8 per cent marginal reserve requirement, introduced in the October dollar support package, effectively precludes a U.S. parent bank from adding to its purchased liabilities in New York in order to fund the Euromarket activities of a London branch. The U.S. banks in London must cater for their own Euromarket needs and the London CD market will help them to do so.

So much for the growth of the market—and a curious market it has turned out to be. It is heavily dominated on both the supply and the demand sides by parties resident in the U.S.. And since it constitutes a money market, it is tied far more closely to developments in New York than any other sector of the Eurodollar market. A number of consequences follow.

No London market maker can today afford to have less than first class communications with New York. For international banks and brokers such as Credit Suisse First Boston or Salomon Brothers, there is little prohlem. But of the dozen or so important market makers, a handful are UK discount bouses and for them life has heen less straightforward.

Gerrard and National formed a partnership with a New York firm but had an unhappy time when the latter folded last autumn through its other activities in the New York markets. Alexanders experimented with a less formal link, with U.S. brokers Donaldson, Lufkin, Jenrette; but this proved unsatisfactory and they have now set up their own office in New York as has Smith St. Aubyn. Jessel Toynbee has kept on with a loose tie-up with a New York firm. Allen Harvey and Ross has signed up a trading partnership with Ehrlich-Boher which gives each firm complete discretion over a shared portfolio during the London morning and New York afternoon respectively.

The implication of the closeness of this Eurodollar sector to their domestic economy concerns U.S. officials in two ways. Economically, the Fed should be content: the 8 per cent marginal reserve requirement last October was aimed at curtailing the banks' expansion of the money supply. London dollar CDs do even better, since purchases by U.S. institutions send money out of the system altogether. (The proceeds of a CD issue cannot be lent back to its U.S. parent by a London branch bank without confronting the marginal reserve requirement: New York banks' liabilities to foreign branches must be reported.)

Legal position

Legally, the position is less clear. U.S. bank paper is exempt from SEC registration. But the London dollar CDs being retailed in the United States include issues hy non-U.S. as well as U.S. hanks. This raises some question about what is required of them for SEC purposes. In this area as some others, SEC requirements, like heauty, are in the eye of the heholder—or, more precisely, in the eye of whichever New York law firm can he found to give a reasonahly encouraging view of the requirements to a client bank. Not surprisingly given the market's size, it has become encouragement enongh for the hanks that the lawyers can spot no firm directive.

This has much to do with the fact that, lifting their telescopes in unison to the blind eye, the sympathetic lawyers bave a view of the CD which does not see it as a security. SEC directives can only apply to securities.

A third aspect of the Loodon market's domination by U.S. participants concerns the implications for tha role of UK institutions in its development.

The secondary market bas become extremely competitive. Profits bave been thin on the ground here for some two years or more and participants bave looked to retail sales for a good part of their earnings—retail sales, that is, in the United States. Some now fear the possibility that U.S. corporations may begin to short-circuit tha London market and turn to their domestic commercial hankers directly.

The prominence in the London market of the major New York investment banks is an associated problem for the UK discount houses and the London interbank market brokers who have enjoyed a profitable role to date. The arrival of the U.S.-based firms has been a main cause of dwindled profits in the wholesale market. And many of them —Merrill Lynch, Goldman Sachs, Salomon Brothers, Kuhn Loeb Lehman—have their own in-house CD funds which connect London to their domestic retail networks. This is a measure of tbe problem facing their UK competitors.

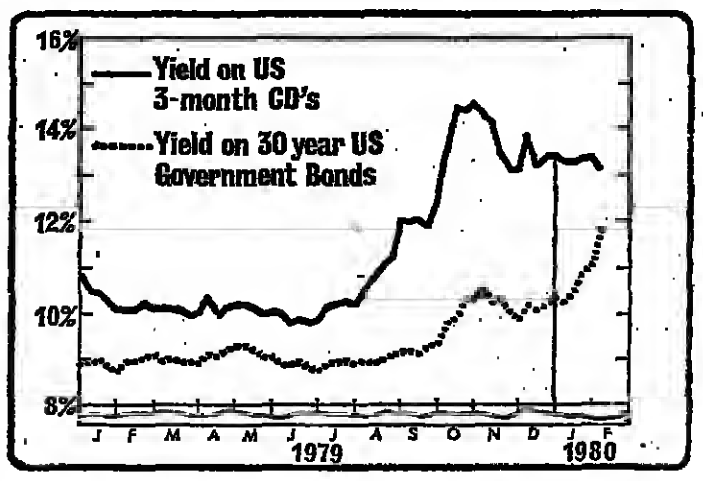
The possibility that a futures market may arise in New York or Chicago for London dollar CDs is a further ramification of the U.S. role.

The Chicago Board of Trade, considering such a market, helieves it would grow rapidly. It is not inconceivable that its turnover could even exceed tbe turnover of the cash market in London, if the precedents of futures markets in domestic New York securities are anything to go by.

An active futures exchange would put an imposing tail ou the London market. How much this tail would wag the dog is hard to predict. No proposed mechanics for futures trading bave yet been published. If many abort sales remained uncovered, the hoost to retail demand in London could be huge. But market practice on other futures exchanges suggests that most contracts would be covered hefore delivery. London could he left on the sidelines, baving to cope with a strong external influence on its prices but collecting relatively littla extra husiness.

Turning aside from the U.S. sbadow over its recent growth, bowever, there have been other moves elsewhere which suggest a far from gloomy future for the wbole London CD markat—to begin with, there has heen the abolition of UK foreign exchange controls.

UK fund managers remain as wary of tha dollar as any others; hut the market hopes now to see substantial demand from them wben the financial climate improves. The market is also optimistic that a suhstantial retail demand remains untapped among the treasurers of UK companies and foreign subsidiaries in the UK.



The abolition of foreign exchange controls offers a second opportunity for the market's expansion: London dealers, hitherto restricted to CDs issued hy authorised banks in the UK, can now trade CDs issued in other money centres of the world, in dollars or any other currency. The market generally views this prospect with some relish, assuming acceptable credits, technical arrangements and Bank of England support.

A brief interregnum lasted from October, 1979, to the beginniog of this month, during which the Bank of England's attitude was not clear towards this prospective development and the London market marked time. The green light hlinked oo February 4 with the Bank accepting the logic of a free market in CDs in London and stating only the condltions ou whicb it would regard its growth favourably.

These conditions include the Bank's being kept fully informed by all concerned—and also the market's making a clear distinction at all times hetween London CDs (i.e. those issued in London) and "non-London CDs," issued elsewhere.

However, on the other side of the official coin is the attitude of the monetary authorities in other countries.

Where international investors smack their lips with anticipation, the authorities decline to play and restrict short-term money market securities to their domestic investors. When the unfortunate DG Bank went ahead last year with a tranche issue of Deutschemark CDs in New York, for example, the Bundesbank stepped smartly in and balted the proceedings before the end of the subscription period. Its fear of seeing its domestic currency internationalised via CDs is shared by most other central banks, including the Swiss National Bank, in particular.

Japan's Ministry of Finance may yet be the exception to this. It is very nervous abont it — and any hint of increased yen speculation will scotch the move — but MOF is edging its way towards a Euroyen CD. Three developments can he seen as paving the way.

Where the authorities take a favourable view of CDs issued in their own currencies, international investors bave little interest—either because other securities bave upstaged the CD, as gilts and hills of exchange have done in sterling, or because the currency is still a little exotic, as with CDs issued in Kuwaiti dinars or UAE dirbams.

First, Japanese hanks bave been the mainstay of the floating rate CD (FRCD) sector of the market. The main raison d'etre for the FRCD bas been MOF's own requirement that Japanese banks should match all but their short-term dollar assets with medium and long-term dollar liabilities. The FRCD market's growth since 1978 — perhaps to $7bn of the total $44bn of outstanding CDs—has increased official Japanese interest in the potential of Euromarket funding for their commercial banks.

Non-resident market

Second, domestic Japanese yen CDs hava been available to non-residents since last June. Withholding taxes effectively restrict the non-resident market to dealers and central banks. Some of the major U.S. houses in London are trading in them for their own accounts. And yen CDs worth $700m are estimated to he held overseas — mostly in OPEC central banking institutions.

And third, the level of Euro-yen deposits has grown, from around $1.5bn equivalent in 1977 (when the first Euroyen bond was issued) to somewhere in the region of $15bn equivalent or more.

A Euroyen CD market is "only a matter of time" according to one leading Japanese broker—though the Japanese security houses will themselves have to alter the MOF's thinking if the market is to benefit them. Unlike the U.S. lawyers who do not want the CD to he seen as a security, the Japanese brokers urge that it should be so regarded. If it is not a security, they are harred from trading it by Article 65 of the MOF's banking code.

Two conditions

Finally, what are the prospects for CDs issued outside London in dollars? Where a central bank would lika to encourage tha international ambitions of its banking sector and where the latter is not already well represented by hranch offices in London, there are grounds for expecting some such development. But the two conditions apply to few places in the world. Scandinavia is perhaps the likeliest candidate.

The other promising situation exists where an ambitious capital centre ontsida London sees itself endowed with a good network of retail investors and an established banking tradition.

This is the case in Singapore, where a flourishing new issues business has already operated in FRCDs. The FRCD is essentially a defensive investment against the tbreat of npward rate movements. Its appeal has declined substantially since the Fed's October package. Perhaps Singapore, with a substantial volume of secondary market business out of Hong Kong, will now emerge as a more important fixed rate CD market.

And the other such centre is Luxembourg. Here, the local Bankers' Association months ago formed an ad hoc committee undar Credit Suisse's Mr. Reinhard Schmolz to do the market's homework. It has just presented its written conclusions to Mr. Pierre Jaans, Luxembourg's Banking Commissioner. The committee chairman is "positive that the Luxembourg issuing market for dollar CDs will come alive within the next six months."

This could be a key development. For in looking to the same participants who play such a major role in other sectors of the Euromarket, Luxembourg wonld rely not only upon Cedel and Enroclear—for its custody and clearing arrangements—but also upon the big Swiss and German banks, as the prime issuers of its CDs, and upon the network of continental corporate and institutional investors as the prime retail takers of the paper.

A second string of this potential might assume great importance in 1980 if the drawing power of the London market's American participants continues to hend the international CD ever closer to the United States. And, if it helps to make the CD a more genuinely international instrument, then London's secondary market has no reason yet to anticipate a slowdown in its recent growth rate.

Difficulties foreseen for new issue placings

SWISS FRANC BONDS

JOHN WICKS, ZURICH CORRESPONDENT

IN ABSOLUTE terms, the market for Swiss-franc foreign bonds developed well last year. Issues amounted to about SwFr 5.2bn ($3.24bn) in nominal terms, noticeably above the 1978 figure of SwFr 4.43bn ($2.75bn) and an all-time record.

New offerings, whose coupons gradually rose from the very low level at the start of the year, generally met with a satisfactory reception from initial subscribers, even if secondary-market quotations frequently sagged.

Despite this, underwriters have not always found it easy to obtain desirable borrowers and there has been lively competition between the various underwriting syndicates. This has led to something of a change in tha structure of the market, with the major syndicate—consisting of the Big Five, the cantonal bank and a number of Swiss private banks—losing ground to four smaller underwriting groups.

The big-bank syndicate still dominates the foreign-bond business, with a share of about 80 per cent of the whole market. Within this consortium, the Big Three (Union Bank of Switzerland, Swiss Bank Corporation and Credit Suisse) together account for about two-thirds of bnsiness handled. They also act as lead managers and determine the conditions for issues by the syndicate, though naturally taking the interests of partner banks into account.

Unlike the situation on the domestic bond market, where Credit Suisse does about as much business as the two others together, each of the Big Three bas approximately the same importance in the management of foreign Swiss-franc borrowings.

This is due both to the automatic rotation of leadership in such cases as sovereign-risk borrowings or those by major corporate entities such as ICI and also to the fact that the banks "take their turn" on the issue calendar with other floats.

The top commercial banks do not have it all their own way in the syndicate, particularly since all syndicate members have to participate in all underwritiogs, each within a given quota. The syndiate, which depends on the placing power of its constituent banks, cannot afford discord.

Imposing

Nor does the hig syndicate rule the roost. Its share of the market, as imposing as a stake of 80 per cent may be, used to be greater; only two to three years back it was more like 85 per cent and a little longer ago closer to 90 per cent.

The four smaller groups have benefited from this loss of rank. These syndicates are generally known by the name or names of their usual lead managers — Gutzwiller Kurz Bungener, Nordfinanz/Kredietbank (Suisse), Handelsbank and Soditic, the fourth being a Geneva finance company which acts as an issue organiser rather than an underwriter. These smaller syndicates consist of a mixture of Swiss and foreign-owned (but Swiss-domiciled) companies, foreign-based underwriters not being allowed access to Swiss syndicates.

There have been a number of reasons for the dccline in the relative importance of the top syndicate. One was the quota policy of the National Bank at the time of capital-market restrictions. Although cartel investigations had previously shown that the big-bank syndicate was not to be considered a monopoly, the monetary authority felt it advisable to apply a damper in the form of a quota of not more than about 80 per cent of the market. Not a few borrowers gave their preference to the smaller syndicates and suffered a shorter waiting list as a result.

The small groups—whose lead managers can and do change and which in some cases are more flexible in the case of a member wanting to opt out—have also proved able to handle some issues which for one reason or another the bigger banks have not been able or willing to manage.

Examples of this are the Algerian floating-rate issue, the bonds of which would not bave been easily placeable with the small investor, or—for political reasons—last August's Bank Handlowy float by Gutzwiller or the (cancelled) Cuba borrowing of the same syndicate which Singer Friedlander would probably have lead-managed. In some cases, too, foreign banks' Swiss subsidiaries in the small syndicates beoefit from business put their way by their parents.

There bave been cases, though not with all the small syndicates, of "very aggressive" business practice in the form of commission undercutting by 0.25 or 0.5 per cent.

The small syndicates, then, by no means live off their big brothers' leavings. Not a few recent foreign borrowings bave been eyed with regret as they went to the junior league. Now, the question is being pondered as to possible future market participation by Japanese security houses; tbe chances seem to be that if these present new business, the syndicates will have to give them ao ad hoc quota io underwriting operations which result.

Japanese finance companies are already well esconced on the private-placements market in Switzerland, which has had lots of Japanese borrowers in the past year, but tbere bas been little presence as yet of Japanese banks on the public bond market. Fuji Bank (Schweiz) and Bank of Tokyo (Schweiz) have figured on small-syndicate tombstones, though.

Whatever the case, it seems thet 1980 could see an improved demand from foreign issuers of Swiss-franc bonds, particularly in the case of governmental borrowers. However, and even given an anticipated rise in the standard coupon to at least 6 per cent, banks are worrying that there could be difficulties in placing oew paper. Post-issue demand is certaioly not very encouraging at present.

Dull start to calendar

D-MARK BONDS

FRANCIS GHILES

THE DEUTSCHE MARK sector of the Eurobond market is chiefly distinguished by the very small number of men who—through their membership of the Capital Markets Sub-Committee—meet every month to decide the calendar of new issues. Four banks founded the sub-committee back in 1968: Deutsche Bank, Dresdner Bank, Commerzbank and Westdeutsche Landesbank. BHF-Bank joined soon afterwards and Bayerische Vereinsbank was admitted two years ago.

The importance of this sub-committee has grown over the years in line with the enhanced position of the D-mark as the second ranking currency for international bond issues and investment after the U.S. dollar. Belonging to this club is a recognition of a bank's importance, a coveted mark of prestige.

Prestige apart, the advantages of belonging are that it gives members a greater insight into the current activities and thinking of German banks. The sub-committee is also used as a discreet channel for communication and debate between the banks and the Bundesbank, which has a permanent representative on it. The most influential member is without doubt the Deutsche Bank, the major bank in Germany and by far the largest issuer and trader of D-mark bonds.

The sub-committee has become more controversial over the past 12 months as the atmosphere in the D-mark bond market has become more competitive.

Typical of incidents which have occurred between members and non-members was the DM 100m issue arranged for the African Development Bank by DG Bank last autumn. A few months before Deutsche Bank had led the first public issue for this borrower and it was evident that, had DG Bank been a member of the sub-committee, it would have been less able to indulge in such territorial infringement.

A bank like DG Bank is well placed to infringe. It may be a latecomer to the international scene but it has the muscle in its network of co-operative banks to provide it with plenty of scope in bonds and syndicated loans.

Another incident occurred recently when BHF managed, together with Morgan Grenfell, a listed D-Mark placement in London, following the removal of exchange controls in the UK. The borrower was the European Investment Bank (EIB) and the coupon offered generous terms. This had the result of upsetting the D-mark secondary foreign bond market as lower-yielding D-mark paper for the same borrower flowed out of London-based institutions and back to German banks.

A few days later the Sub-Committee agreed that no D-mark placements would be made outside the German capital market and none would be listed exclusively on a foreign exchange, as had been the case with the EIB issue.

The trials and tribulations of the U.S. dollar last year, and the very sharp rise in U.S. interest rates, might have been expected to provide the D-mark sector of the Eurobond market with a bumper crop of new issues. Such, however, did not prove to be the case and only DM 8.7bn worth of new public issues (and large private placements) were floated in 1979, DM 200m less than in 1978. This figure however does not tell the whole story: South Africa alone is estimated to have raised between DM 300-400m worth in the form of small private placements.

An even more important fact which the figure for D-mark foreign bonds alone hides is the very heavy increase in the sales of *Schuldscheine*—or promissory notes—to foreign residents: sales of such paper is estimated to have increased by 50-100 per cent last year to reach a figure of DM 10bn.

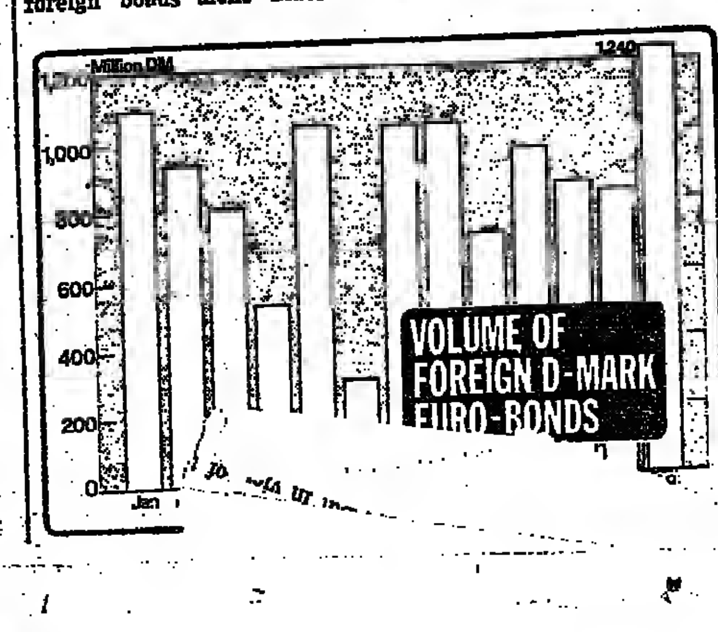
The monetary trend of new D-mark foreign bond issues has traditionally been very erratic. Nineteen-seventy-nine proved no exception as the accompanying chart shows. From month to month the effective new calendar of issues can be multiplied by three. Among the factors which contribute to these wild swings are: 1—the state of the U.S. dollar bond market; 2—the effect of the lag of D-mark v. U.S. dollar interest rates; 3—the strength of currency speculation in favour of the German currency and 4—the growing competition for foreign borrowers seeking to issue D-mark bonds among the German banks.

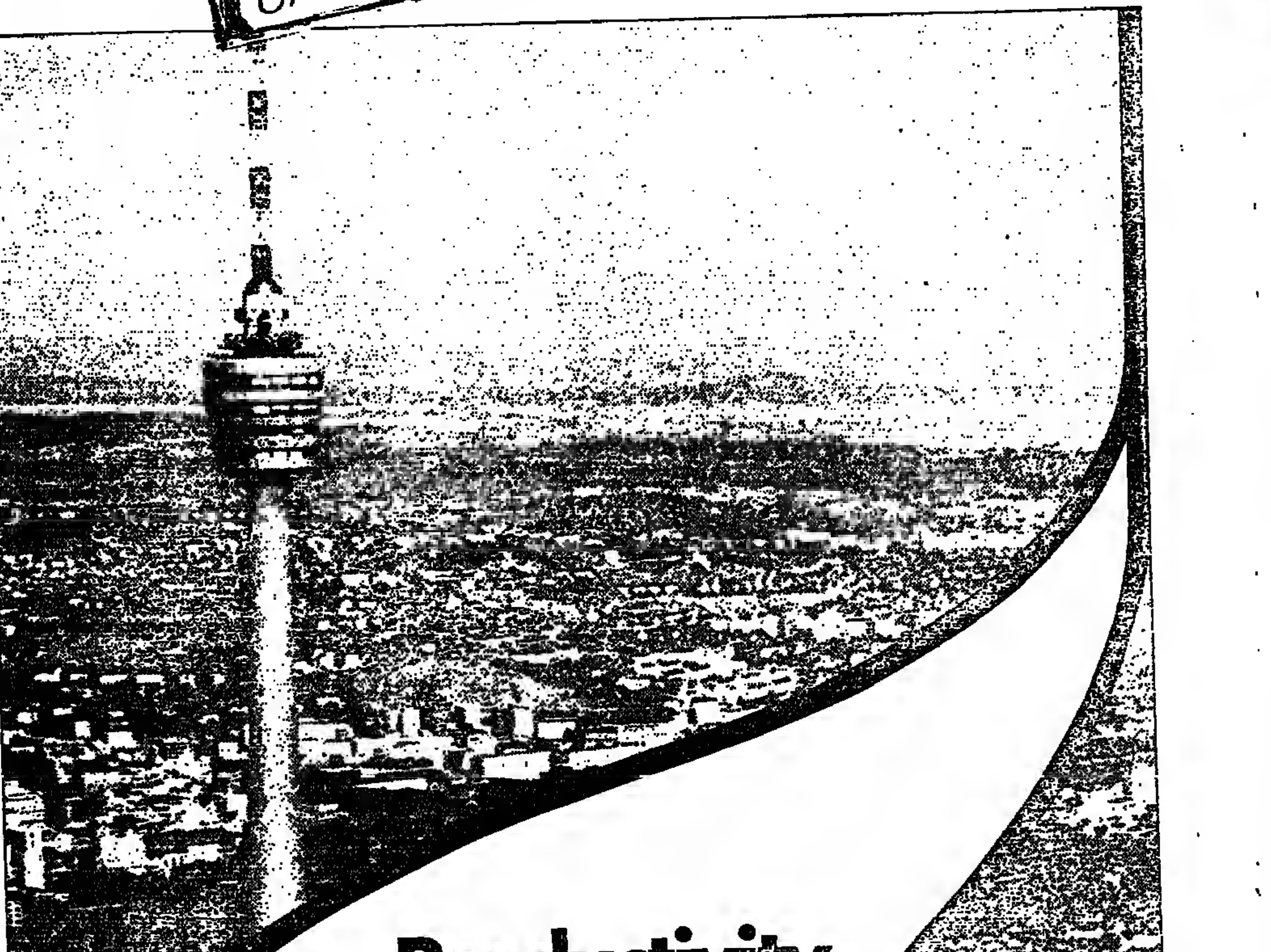
Landscape

Among the unchanged features of the D-mark sector landscape are the rank of the banks which participate, and the role of the Capital Markets Sub-Committee. Deutsche Bank, Westdeutsche Landesbank, Dresdner and Commerzbank, in that order, rank as the major issuing houses with the first two still accounting for about two-thirds of all new issues, a slightly higher percentage than was the case in 1978.

The sub-committee for its part retains the same discreet but crucial role; it sets the calendar of new foreign issues every month and acts as a debating committee in which the Bundesbank representative can air the central bank's views. While the Bundesbank may not be able to stop the increasing use of the D-mark as a reserve currency, it can at least ensure that it keeps a close watch on the development of German banks international activities in D-marks.

It is difficult to know what this year holds in store for D-mark foreign bonds. The very heavy January calendar was not easy to place as flows of funds from abroad no longer seek out the D-mark at present—gold, silver and commodities have replaced the D-mark as a hedge against inflation and the devaluation of the U.S. currency for the time being. Issues were sold, however, because the yields they offered increased to a level which made them attractive for German investors. The calendar for February is a modest DM 740m but the market remains dull.





Japan puts curbs on overseas lending

SAMURAI BONDS

RICHARD HANSON

ACCORDING TO Japanese securities industry wags, the main reason the Samurai bond market was not closed up late last year, when authorities restricted yen (and dollar) lending overseas, was because it came primarily under the jurisdiction of the Securities Bureau in the Ministry of Finance—and not the sometimes rival International Finance or Banking Bureaux of tha same Ministry.

True or not, the story does illustrate the complicated halance of private and official interests which govern the market for foreign issues of yen bonds in Japan. It is also true that the market, while opeo, is at tha moment operating under constraints which are unlikely to be lifted until Japan's halance of payment deficits begin to shrink.

The present consensus among underwriters and the authorities is that issues will be limited to Y50bn a mooth in volume, rising to a Y60bn ceiling from the April quarter.

The actual approvals for issues so far from January to April, bowever, indicates that the Ministry aims to keep tha actual market well below tha ceilings.

In January, the Province of Quebec was the only issuer with Y20bn. In February RENFE, the Spanish railway authority, is set to raise Y16bn. March will reach the ceiling with two issues—Sweden, for Y30bn and Finlaod with Y20bn—but only one issue has been giveo the go-ahead for April (Y27bn) for New Zealand.

Limitations

In additioo to the volume curbs, there are a oumber of limits oo just who can actually apply to float a bond. Borrowers who qualify will need to have issued publicly at least twice in international capital markets within the past five years (two private placements do not couot, nor would two issues in Tokyo only, qualify), aod at least five times in the past 20 years. Triple "A" rated borrowers, such as the World Bank, are allowed to raise up to Y30bn, while others are limited to Y20bn, or the maximum that the borrowers has previously raised in Japan.

Another unstated guideline which appears to hold sway right now is to npgrade the quality of the borrowers who will be allowed to issue bonds. The developing countries, which were giveo a brief look at the Samurai market in its heydays, are not being encouraged now.

Privata corporations from abroad to be out of luck for the time being, after making a debut in 1978. Sears, Roebuck managed to break the barrier, and there is a list of about 30 American companies which theoretically qualify under the standards established hy the securities bouses and banks. But it now appears to motives for letting a foreign company to issue an uncollateralised yen bond were more related to the peculiarities of the domestic bond market rather than internationalisation.

The Sears issue paved the way for top-rated Japanese companies to issue bonds, without bank guarantees or collateral (Toyota Motor and Matsushita Electric Industrial were the first). The absence of a hank guarantee (a tradition dating back to the 1930s) gives the securities company more control over an issue.

One more deterrent to foreign companies issuing yen bonds are constraints on some major institutional investors (primarily, fishery and agricultural co-operatives) against buying uncollateralised bonds, therefore limiting the market somewbat.

The rules guiding the Samurai market represent a series of compromises among the participants and the authorities (although the Ministry of Finance is quick to deny that it is actually ordering tha market to follow its wishes). These compromises extend to the practices followed in actually forming issuing syndications, many of which would be considered peculiar in Europe or the U.S.

First, the underwriting of a Samurai bond is dominated by the big four securities companies—Nomura, Nikko, Daiwa and Yamaichi. In most normal issues these four will jointly act the the management group, usually designating one among themselves to be the lead manager. The big four will underwrite about 65 per cent of the issue, placing the rest with smaller securities companies. Foreign bank participation is limited to 5 per cent of the underwriting, and is usually less. (It is also required that Euroyen bond issues be led by one of the big four Japanese companies.)

Unique institution

The interests of the commercial banks (forbidden by law to be in the securities business since the end of World War Two) are then covered by a unique Japanese institution, the "Commissioned Company."

Perhaps as compensation for the loss of their pre-war status as universal banks, the banks are given the role of principal paying ageot, preparing the legal documents and even printing the bonds. Some would call this *de facto* underwriting.

For the rola of tha banks is further enhanced by the peculiar custom of having banks commit themselves to buying a certain portion of an upcoming issue before the bonds are priced to ensure smooth placement.

This rather flexible interpretatioo of what a bank can do in the Samurai market is a reflection of the key role they are allowed to play in the guaranteeing of domestic bond issues, which makes them the responsible party monitoring the issuing company's financial health.

TOP FOUR UNDERWRITERS OF SAMURAI BONDS

Underwriter	Lead manager, no. of issues to date	Yen value	% market share
Nomura	39	Y782bn	48.3
Nikko	13	Y225bn	13.9
Yamaichi	16	Y304bn	18.9
Daiwa	16	Y309bn	19.1
TOP FOUR MANAGING COMMISSIONED BANKS			
Industl. Bk. of Japan	37	Y644bn	39.8
Bank of Tokyo	45	Y936bn	57.8
Long-term Credit Bk.	1	Y20bn	1.2
Dai-Ichi Kangyo	1	Y20bn	1.2
Total issues in 1979		Y333bn	

Yield at issue for ten-year bonds, February, 1979, Inter-American Development Bank, 6.997 per cent; January, 1980, Quebec, 8.307 per cent.

Consensus in favour of cautious line

CONTROLS

DAVID MARSH

"Just because the Euromarket has functiooed so well up now gives no grounds for certainty that it will continue to do so in the future." Thus Herr Helmut Schmidt, the West German Chancellor and one of the main political advocates of improved control of the Euromarkets, summed up just before Christmas a principal argument for central banks to tighten up on the $1,000-bn of currency deposits held outside their country of domicile.

It now appears, however, that the German Chancellor—and everyone else caught up in the Euromarket debate—will have little option but to continue to hope that the market will remain operating as smoothly as it has done in the past.

The crises in Iran and Afghanistan, together with the interlinked explosion in oil prices and the subsequent increase in the oil exporters' surpluses, have stifled the voices calling for direct curbs on Euromarket lending.

Instead, attention has shifted to the delicate problem of keeping the Euromarket open as an efficient channel for recycling oil surpluses, while at the same time assuring sufficient prudential control of banks' activities by national supervisory authorities to keep pace with the increased risks.

Herr Schmidt and Mr. William Miller, the then chairman of the Federal Reserve Board who is now President Carter's Treasury Secretary, provided the main impetus in the early summer of last year for efforts by the major central banks to explore the possibilities of controls on the Euromarket. Mr. Miller brought to the regular central bank governors' meeting in Basle in May a suggestion for imposing minimum reserve requirements on Euromarket deposits as a means of bringing the market for the first time directly under the control of the central banks.

Money supply

The Fed's argument was that the large build-up in dollar deposits held outside the U.S. not only hindered control of the American money supply but had also been a significant factor behind the massive foreign exchange speculation against the dollar in 1977-78.

The German Government welcomed signs that the U.S. aban[illegible] of "benign neglect" had worked its way from the dollar on to the Euromarket as well. Both the Bundesbank and the Finance Ministry for some years had been hoping for international action to bring minimum reserves to the Euromarket. This was seen partly as a means of stepping up control of minimum-reserve free banking in Luxembourg, where most of the big German banks had built up powerful Eurobanking subsidiaries.

Discussion needed

Some of the other important central banks, notably the Bank of England and the Swiss National Bank, promptly voiced opposition to the Miller proposals, and even some officials at the Bundesbank doubted whether they would be practicable. But all the central banks agreed that the problem of a Euromarket expanding at an annual rate of 20 to 25 per cent at least merited discussion.

Accordingly, a number of central banking committees were set up under the auspices of the Bank for International Settlements (BIS) to look into the matter and to report whether action was needed.

One working party, led by M. Rene Larre, general manager of the BIS, was charged with looking into the influence of the Euromarket on the foreign exchange market, the problems of national monetary control and the risks faced by international banks. Another, headed by Prof. Alexandre Lamfalussy, the BIS's economic adviser, was to look into specific measures of control, including the idea of unified capital-to-liabilities ratios or other sets of lending guidelines. A subgroup of the Lamfalussy committee, under Mr. Stephen Axelrod of the Fed, was set the task of exploring the U.S. minimum reserve proposal.

The committee, composed of technical experts from the central banks of the Group of Ten and Switzerland, is due to hold its final meetings in Basle this month. It will produce reports ready for discussion by the central bank governors at their regular monthly meeting on March 10.

Bu[illegible] the strains on international banking likely to emerge from this year's $100bn oil-exporters' surplus, the central banks have cut down significantly on some of their original aims. The borrowers' market in international lending—one of the main sources of central bank concern over the last couple of years—now shows signs of coming to an end, with margins rising and maturities diminishing, especially for the poorer quality borrowers, over the past few months.

This has aroused concern that some of the more heavily borrowed countries in the Third World, which already face crippling debt service costs as a result of their Euromarket financing over the past few years, may simply be squeezed into default if the market tightens further.

It has thus been clear for some time that draconian controls on Euromarket liquidity have been completely ruled out. The U.S. minimum reserve proposal has even been publicly rejected as unworkable by Dr. Otmar Emminger, the former Bundesbank president who retired at the end of last year and who at one time was thought to favour more vigorous methods of control.

Instead, the central banks next month are unlikely to decide anything more fearsome than measures to improve further the supervisory authorities' overview of Eurobanking operations—including a further push for commercial banks to draw up fully consolidated accounts and better statistics about country lending.

Agreement among the main countries to force consolidated accounting principles on their commercial banks was in fact already reached last summer. The German authorities were particularly anxious to reach an accord on consolidation in order to check the activities of the German banks, Luxembourg Euro-subsidiaries, which are legally beyond the jurisdiction of the Bundesbank or the Federal Banking Supervisory Office in Berlin.

But it is generally acknowledged that even bringing the standards of German banking accounting up to the Anglo-Saxon levels will be a long haul.

Consolidation of all accounts to include the activities of overseas subsidiaries will be one of the main features in the amendment of the German Banking Law during the next legislative period after this autumn's elections. But the amendment will probably not be on the statute book until 1982.

Once central banks have in place regulations on properly consolidated accounts, there might be some hope for the proposal made originally by the Bundesbank. This is that all the major countries agree on unified sets of capital ratios in order to set limits to the international lending of their commercial banks.

The Swiss Banking Commission has already extended its domestic capital ratio rules to cover the international operations of Swiss banks — something which has forced several banks into hasty capital-increasing operations. A similar extension of present German rules on capital adequacy is also planned as part of the Banking Law amendment.

Difficulties

But a system of harmonised capital rules to cover the operations of all banks operating on the Euromarket seems highly unlikely because of the difficulties of transplanting global international rules on to fundamentally different national banking structures. The most that could be hoped for—which according to some central bank officials remains a distinct medium term possibility — is that national authorities could agree over the course of time to adapt their capital adequacy rules in the same general direction.

Meanwhile, central banks are already stepping up measures to win more detailed insight into potential international problem areas. The Bank of England, for instance, is now in the process of building up its first consolidated picture of the "country risk" of all the international dependencies of each bank with a head office in the UK.

And the Bundesbank is ordering German banks to send in monthly reports, starting at the end of March, on the geographical pattern of lending via foreign branches. Previous regulations had applied simply to the international exposure of domestic branches—but had failed to take account of the growing proportion of foreign business transmitted directly from abroad.

Political shadow over East-West trade . . .

COMECON

BY ANTHONY ROBINSON.
East European Correspondent

A RE-ASSESSMENT of the political risks involved in East-West finance has been an inevitable consequence of the Soviet invasion of Afghanistan. The steady expansion in Western lending to Eastern Europe and the Soviet Union stemmed after all from the Soviet political decision made at the start of the last decade to step up trade with the West. Russia's aim was to try to close the growing technological gap without baving to undertake the sort of fundamental political and economic reforms which would otherwise bave been necessary to inject new vitality into an increasingly hidebound system.

The subsequent growth in East-West trade and the borrowing needed to finance it was an integral part of that ill-defined process called detente.

Now that the wbole future of detente has been called into question by the Soviet action in Afghanistan hankers too have felt the need to re-assess their current position and future lending policies. Hitherto the political factor has not played a major part in most banks' lending policies. Political stability is a fairly scarce quality in the contemporary world and the tightly controlled and centrally planned systems of Eastern Europe have long been considered by bankers as being both stable and a *good risk*.

With the partial exception of Poland most borrowing has been linked to the financing of capital *imports*, often associated with specific export-generating projects. Moreover, borrowing hy the East hloc as a whole is no greater than that of Brazil on its own, while its capacity to repay is infinitely greater.

In addition, the Soviet Union, which rightly or wrongly is still seen as a sort of lender of last resort to its Comecon allies, is currently in a highly liquid situation thanks to the substantial improvement in its terms of trade resulting from higher gold, oil and other raw material prices.

In these circumstances Western hankers contemplating the fresh surge of surplus petrodollars for which they have to find a secure home are clearly hoping that the 1980s will not see a drastir, politically imposed run-down of East-West trade and of the funds required to finance it. Western businessmen, particularly European and Japanese, facing the expected recession in world trade generally share this view.

The same can be said of East European borrowers who are counting on continuing access to Western markets in order to service their existing deht and who have heen banking on continued access to international capital markets to finance their projected increase in hard currency oil imports as the decade wears on.

Economic control

That said, however, the prospect of a possibly long-term deterioration in relations between the U.S. and the Soviet Union seems certain to reinforce the position of those within the Soviet leadership who bave never been happy about the dilution of economic control implicit in greater trade and financial links with the West. Higher prices for oil, gas and other Soviet exports to Comecon have already forced East European countries to step up their exports of industrial and other goods to the Soviet Union and a deterioration in East-West relations generally is likely to increase the pressures for a greater coocentration in *future in intra-Comecon trade*.

The situation is still fluid. But all Comecon countries are currently in the throes of finalising their next five-year plans and it would be surprising if foreign trade plans are not being reviewed to take into account the possibility of more difficult trading and financial relations with the West. The measures taken by the West so far have been strictly limited, and mainly directed at the Soviet Union itself.

The most important of these have been the U.S. embargo on grain sales to the Soviet Union, a more restrictive policy towards sales of high technology equipment covered by the COCOM rules, and moves to curtail the subsidy element in *State-guaranteed credits*.

But West European and Japanese rather than U.S. companies have been the most active in East-West trade, and the level of political commitment so far does not extend beyond an agreement not to undermine the U.S. position by stepping in to supply items which the U.S. Government had previously harred for sale by U.S. companies. In these circumstances the prospects appear to indicate a continuation of hoth East-West trade and lending, but with greater caution and less enthusiasm on both sides for the foreseeable future.

. . . and the flow of funds to the major borrowers

THE COUNTRIES of Eastern Europe are as varied and complex as the western half of the divided continent and so are their economies; and for that matter so is the structure of *their foreign debt. The differences* have grown rather than diminished in recent years.

Last year Poland achieved the somewhat duhious distinction of becoming the most heavily indehted Comecon country. It raised over $5hn last year and hopes to raise at least as much again in 1980, mainly to help service a gross debt which is helieved to have risen to around $18.5hn last year.

While Poland and most other East European horrowers have heen raising fresh funds the Soviet Uniou bas been re-paying debts before schedule. This reflects the growing dichotomy hetween the Soviet Union—with its hard currency earnings from gold and other precious metals, oil, gas, armaments and services like shipping—and its East European partners which are having to pay more for their imports from both East and West and are being squeezed by deteriorating terms of trade and growing difficulties in selling at a profit in Western markets.

Over the last 18 months the Soviet Union is estimated to have reduced its gross foreign deht by some $1.5bn to around $17bn while its hard currency deposits in foreign hanks have risen. In 1978 the Soviet Union is estimated to have had nearly $6hn deposited in Western hanks and gross liabilities of around $17.2hn. Part of the Soviet Union's hard currency earnings were earmarked for the purchase of grain. The U.S. embargo ensures that the Soviet Union now has more hard currency than it originally hargained for and is therefore in even less need of further foreign horrowing at this time.

Much ingenuity

Poland oo the other hand has been obliged to exercise maximum ingenuity and tap whatever source it could, including obtaining front-ended finance for new coal and copper mines to he repaid by subsequent deliveries.

Poland bas also horrowed heavily from the U.S. Government's Commodity Credit Corporation and commercial hanks to finance higher-than-expected grain imports after a bad harvest.

Bulgaria, whose total deht is around $4.5bn, is now making a major effort to attract Western capital through joint ventures and increase its hard currency earnings. Up to now the high volume of its Comecon trade has limited its attractiveness to commercial hanks, which looked askance at its high hard currency debt-to-earnings ratio. Czechoslovakia, on the other hand, has remained a consistently conservative borrower and has so far resisted the hlandishments of Western bankers, even though it has been paying a price in a slower pace of technological innovation than some of its neighbours like Hungary. The Hungarians concentrate all horrowing through the Bank of Hungary which then allocates the funds for specific export earning projects requiring imported plant and machinery.

EASTERN EUROPE'S FOREIGN ASSETS AND LIABILITIES VIS-A-VIS THE WEST
(Est. end-1978—$m)

	Foreign assets Bank deposits	Export credits	Foreign liabilities
Bulgaria	569	n.a.	4,000
Czechoslovakia	582	n.a.	3,500
East Germany	1,256	n.a.	9,000
Hungary	912	355	7,300
Poland	795	972	17,500
Romania	229	275	4,400
USSR	5,630	n.a.	17,200
Total	9,973		62,900
CMEA banks	350	n.a.	5,800
Total	10,323		68,700

Note: Data on foreign assets are incomplete for most countries: these estimates are hased only on published data and probably understate *the overall* total of foreign currency assets.
Source: Bankers Trust

Hungary raised well over $1bn last year in a series of major borrowings, including an innovative package based on the U.S. prime rate rather than Libor in a successful attempt to attract U.S. banks which have been reluctant to lend to Comecon borrowers at low spreads. Hungary's reputation for financial sophistication was further enhanced by the creation in Budapest of the first joint East-West bank to be based in a Comecon capital.

Appetite

East Germany (GDR) has made extensive use of supplier credits, aided by the special DM850m annual interest-free swing credit from West Germany. Its continuing appetite for high technology imports and credit reflects the massive Soviet demand for the GDR's high quality engineering products, which in turn reduces the availability of goods for export to the West and ensures a continuing steady level of borrowing.

While East Germany enjoys privileged access to the West German market, Romania, with its independent foreign policy, enjoys the advantages of membership of the World Bank and IMF, which together have provided almost half of its estimated $5bn foreign debt.

Romania, Poland and Hungary are seen as the most genuine supporters of detente in Eastern Europe, while East Germany, Czechoslovakia and Bulgaria are seen as the closest followers of Soviet foreign policy initiatives. Up to now such considerations have played virtually no part in determining lending policies and indeed the prevalent view has been that East-West trade and financial links generally have been an important channel of communication with Eastern Europe as a whole.

It remains to be seen whether an element of political discrimination now slips into future lending and whether, as several borrowers suspect, heightened political tension will lead to higher rates and shorter terms.

Brazil's debt looms ever larger

LATIN AMERICA
FRANCIS GHILES

In 1979 Latin America's six major borrowers—Argentina, Brazil, Chile, Mexico, Peru and Venezuela—raised over $24bn, almost a third of all syndicated credits negotiated during the year. Mexico raised more than Brazil last year ($8bn as against just under $6bn) and more than Venezuela ($6½bn). These three countries raised about $1.3bn on the international bond market, a small proportion of the world total of bond issues but still a large share—over 40 per cent—of all bond issues by the less developed countries (LDCs).

Mexico and Venezuela pose no problems to the banks. As major exporters of oil, a commodity whose price has risen fast during the past 14 months, they face the normal coostraints on economic growth faced by all developing countries but can look forward to further growth and borrowing with confidence.

Such is not the case with Brazil, whose debt service ratio reached 60 per cent in 1979 and whose trade deficit is expected to have swollen from $1.2bn in 1978 to $2.5bn last year. The immediate financial security of Brazil is not in doubt as it rests heavily on the international reserve position of the country — reserves are the equivalent of seven months' merchandise imports and are sufficient to cover total external debt service payments, both interest and amortisation, but the problems its debt poses loom large on the horizoo of international banking.

Ten-fold

Sr. Karlos Richbieter who resigned last month as Brazil's Minister of Finance, was recently quoted as saying that all oil-importing Third World countries are in debt "to such an absurd degree that it is starting to create banking problems: if oil reaches $35 a barrel, it is not Brazil that will take the initiative to renegotiate the debt—the whole world will have to sit down" and tackle the problem. The figures speak for themselves: Brazil's total hard currency debt has grown ten-fold between January, 1971, and January, 1980, to around £50bn —the largest debt of any developing country in the world.

Concern over the size of the country's debt has only been voiced publicly since last year. Until then the "economic miracle" the country was undergoing was used by banks to brush off any suggestion that the country might ever have to face difficulties and possibly consider rescbeduling.

Today, however, Brazil needs an estimated $14bn to pay back interest and principal due in 1980 on its outstanding debt. With exports projected to rise to around $20bn and the cost of oil imports—calculated at $30 a barrel—rising to $11½bn to which must be added $10bn to pay for the import of essential capital goods and raw materials, it is difficult to see how Brazil can bridge the gap.

The problems Brazil faces this year are not unique. Like a string of other non-oil LDCs Brazil has been caught on the horns of a dilemma: rapidly rising oil prices on the one side and on tha other the increased price of the capital goods it buys from the industrialised countries which in turn are seeking indirect compensatioo for the higher energy costs their economies are having to bear.

To add insult to iojury the large rise in U.S. interest rates is expected to add a further $1bn in interest payments as a large share of the country's debt is in floating interest rate dollar form.

Were Brazil to find it impossible to raise the funds it needs to service its debt from internatiooal banks it could not hope to get them from international lending agencies. The country's per capita income is too high to allow it access to a oumber of lending agencies whose funds are earmarked for poorer coontries. Put more starkly—since the sums Brazil oeeds are too large for even the International Monetary Fund (IMF) to contemplate lending —it would run out of ready cash.

Added to this the remedies the IMF seeks to impose on countries to which it extends special help—notably budget cuts and tax increases—would not be politically popular. In Egypt and Peru the imposition of such measures led to riots and political trouble. Such an outcome in Brazil would not be welcomed—least of all by the banks.

Yet the banks face a difficult decision. Many of them have nearly reached their ceiling on lending to Brazil—in the case of U.S. banks many major institutions are believed to be approaching their legal limit on leading to Brazil, since no more than 10 per cent of a given bank's capital can be lent to one borrower.

Yet many banks are well and truly locked into Brazil. A sizeable proportion of their profits from overseas activities derive from lending to Brazil and they often act for Western companies which have a sizeable stake in one or more projects in Brazil—the most famous of which is the Italpu dam.

While rolling over debt is not what banks prefer to do, they might have to go along with it. Brazil is in a strong position, according to a number of bankers, if matters come to the crunch. If Brazil owed the banks a few million dollars, the banks might be in a position to put pressure on the borrower. But with the amount outstanding at around $50bn, Brazil effectively holds the whipband.

The banks can force Brazil to pay more for syndicated loans —and that is what is expected to happen, not least because of general trends in the syndicated loan market. But were funds to denied—or reduced—the prospect of default would begin to loom large. That is something bankers would rather not contemplate—even the thought of rescheduling sends shivers down the spines of most people.

Many hankers believe that the Brazilian miracle may have effectively come to an end after the quadrupling of the price of oil in 1973-74. Yet successive Brazilian Governments bave continued to push for growth—at any cost. The present administration of President Fiquereido has seen inflation surge to 80 per cent instead of being cut back from 40 per cent, and foreign borrowing increased rather than reduced.

Measures recently introduced by the Government—and the new economic overload, Sr. Delfim Neto, to curb the unwieldly financial operations of the big State-owned corporations are indicative of some of the harsh measures Brazil might have to take. But by themselves they will not solve the problem.

How the international banking community faces up to what many bankers feel will be a major challenge will have important repercussions in the international capital markets.

By comparison the other five major Latin American borrowers face few problems. Mexico's external obligations now total over $28bn and it is able to borrow on very fine terms thaoks to the large increase in its oil wealth. Venezuela borrowed considerable amounts of short-term money in 1979 and thus substantial repayments are expected to become due in 1980-81. The country's current debt is estimated at $10bn.

Peru did not borrow in 1978 because of a very serious debt crisis but as the trade balance has shown considerable improvement in 1979 it was able to return to the syndicated credit market last year. Its total debt stands at about $7bn. Argentina stepped up its borrowing strongly last year; this followed on a rise in the trade surplus and a jump in imports as a result of deliberate government policy to open the economy to foreign competition. Chile's debt meanwhile increased from $6.9bn in 1978 to $8.5bn last year and it should have no difficulty in continuing to raise funds in the markets this year.

As the Euromarkets tighten up this year, and maturities shorten while margins rise, a policy of reserve reduction is expected by many bankers as inevitable on the part of most Latin American borrowers.

Heavy involvement leaves lenders little choice

TURKEY
DAVID TONGE

THE PAST two years were a period of consolidation in Turkey's financial affairs but oow the problem is more serious. It was one thing to tidy up the welter of arrears which loomed large in Turkey's $14bn foreign debt. It is another to fact the facts that between one-quarter and one-half of this may have to be re-scheduled again and that for the indefinite future Turkey will need further help.

Re-scheduling Turkey's debt has been the major such operatioo in financial history. Governments and banks have rolled over $5bn of trade arrears and official debt. Now a plan has been announced to tackle the last major category of debt—about $1.9bn of unguaranteed trade arrears. Yet, still the overall situation looks grim.

Certainly some steps have been taken. The 15-week old Government of Mr. Suleyman Demirel has just announced a 33 per cent devaluation and an austerity package on the lines demanded by the International Monetary Fund. This has opened the way to disbursement of the overdue second tranche of the 250m Special Drawing Rights ($325m) stand-by agreement with the IMF reached last July. It has encouraged the IMF to make available a further 71m SDR ($93m) from the Compensatory Financing Facility. And it is making more probable Turkey's hopes for negotiating a fresh agreement involving the Supplementary Financing Facility (the so-called Witteveen Fund) of the IMF by early April.

Further, Turkey is making progress with programme and project credits from the World Bank which could total around $500m; with advancing its drawings from the $407m loan arranged with a consortium of banks last autumn; and with reducing the degree of casb cover required for transactions with banks abroad. It is also expanding the volume of acceptance credits its banks can handle.

Of longer-term importance are the measures it has announced to bring its economy more in line with those of Western Europe. The foreign investment code which has been announced is a major step to cut red tape and encourage outside entrepreneurs. Banks and even foreign oil companies are to be welcome. Major tax reform is promised.

Awkward

But such major advances have to be set against an awkward backcloth. Consumer prices rose 80 per cent in 1979. There is a major domestic slump, with unemployment exceeding 20 per cent — whatever that means in a largely rural economy such as Turkey — factories often working at only one-half capacity, and a serious shortage of industrial raw materials, fuel oil, petrol, electricity and coal.

Political terrorism is rampant and the generals have issued a stern warning to the country's politicians. As for the government, this is a minority one, dependent on the support of the erratic Mr. Necmettin Erbakan's pro-Islamic National Salvation Party and of the militant Nationalist Action Party of Mr. Alparslan Turkes.

Also disturbing is the outlook for the balance of payments. The Government believes that a surge in imports — which mainly consist of oil and semi-manufactures necessary for industry — is essential for industry to pick up. This year the trade deficit is forecast to total $3.75bn and the current account deficit as a whole $2.2bn. Even allowing for the IMF, World Bank and other credits expected, the deficit on current and capital account is likely to be $1.5-2bn.

Put another way, debt interest and debt payments are forecast to total $2.1bn as compared with total export earnings of $3.15bn — and this when the country's oil bill alone is expected to be between $3.5bn and $4bn.

Turkey's plight is symptomatic of that of many middle-income developing countries, even if its problems are more acute. But a trip by Turkish Ministers and officials to Saudi Arabia at the New Year did not lead to any immediate aid promises. However, on February 25, Turkey is due to meet with the Organisation for Economic Co-operation and Development's Working Party Number Two to discuss medium-term planning. It will also take the opportunity to raise the question of rescheduling, first, official debts and guaranteed trade debts coming due in the year to June 1981 and secondly $2.3bn which was rolled over in 1978 and 1979.

Mr. Turgut Ozal, who is co-ordinating economic policy for Mr. Demirel, says that Turkey would like to see re-scheduled debts spread out over 10 not seven years, with a four-year, not three-year, grace period. At a later date, Turkey may need to raise the same point with the banks who re-scheduled debts such as those on deposits under the convertible Turkish lira scheme: up to $3bn might be involved.

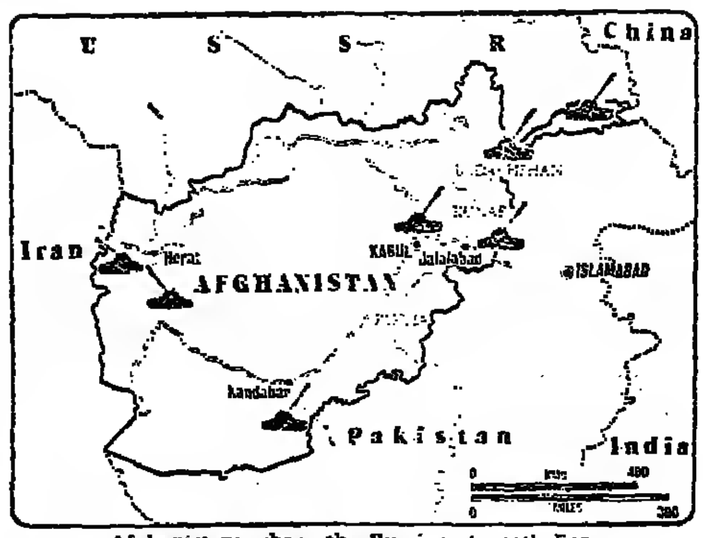
Pledges

With a financing gap this year of $2bn Turkey is also looking for fresh pledges of aid. Mr. Ozal, who has worked at the World Bank, says that he hopes to see an OECD pledging session at the end of March similar to that last May which prodnced promises of $906m of credits. Mr. Ozal would like to see twice that amount this year.

Daunting that sum may sound—but daunting, too, are Turkey's requirements in the short and medium-term. Its potential is large. But the banks which were happy to lend money to Turkey, lured on by high profit margins long after the danger light was flashing, now find that the sums required from them and Western governments are huge. The problem for them is that there seems little alternative to becoming yet more deeply involved.

Where Russia goes from here

By DAVID HOUSEGO, Asia Correspondent recently in Kabul



Afghanistan: where the Russian strength lies.

THE FIRST thaw in the harshest winter that Afghanistan has known in five years has brought a resurgence of guerrilla activity against the Russian invasion forces. North of Kabul in the snow covered hills and eastwards towards Jelalabad, tribal bands have been able to move more easily harassing convoys on the roads or striking at government installations. Russian-piloted helicopter gunships have hit back with rocket attacks and by blasting nearby villages.

The increase in skirmishing, pointing to heavier clashes in the spring and early summer, opens a new phase in the Russian occupation. But though the insurgents are a continuing nuisance to the Russians, the threat they pose to Russia's grip on the country remains minimal. As last year when their challenge was to the much-hated regime of Hafizullah Amin, their targets are still power stations; small local army or police headquarters, official buildings and traffic on the roads. The disruption is not lasting.

They have retained control of wide tracts of land in the eastern provinces stretching in an arc from Baghlan, north of the Salang Pass, to Badakhshan on the Chinese border in the north east and thence southwards along the Pakistan frontier to Lowgar and Paktia. But the Russians with some 85,000 troops in the country can put down barriers of steel as no Afghan regime before them along the main highways and around the principal towns. The Mujahhedin—the patchwork force of Islamic guerrillas and tribal bandits—do not match these numbers. Still poorly equipped and ill-co-ordinated, they are in no position to dislodge the Russians from their strongholds.

The massive display of Soviet armour over the last seven weeks goes well beyond what was needed to bolster the regime of Babrak Karmal which they installed on December 27—suggesting that they had more than this in mind. They have deployed three divisions in the West towards the Iranian border, a further three in the North and East which face Pakistan, and parts of a division south of Kandahar. Because of the ease with which the Russians can reinforce these from across their own border, this has effectively driven a wedge towards south Asia and the Middle East that has transformed the power balance of the region.

Since the Second World War, Afghanistan had been regarded as the weakest state in the area, poor and landlocked. It was vulnerable to pressure from Pakistan which in the 1960s cut off its access to the sea through Karachi. After 1973 it was financially bolstered by Iran and Gulf states such as Kuwait.

Reversed

The Russian invasion has reversed these roles. The new Soviet strength in Afghanistan has by contrast highlighted the political fragility of Pakistan, its *lack of cohesion as a* nation and particularly the questionable allegiance of its south western province of Baluchistan which is tempted to see the present crisis as an opportunity to press its claims for autonomy. It has placed the Russians in an ideal position to take advantage of any new upheaval in Iran through aiding pro-Marxist movements or the ambitious dreams of Baluch nationalists. Such a crude demonstration of Russia's power has created nervousness about Russia's future intentions that stretches from India to the Gulf. It has served as an awesome reminder that they are a force to be reckoned with thus enhancing their bargaining position whether over the political future of the region or over the allocation of oil supplies. Many people in Kabul *fear* that the Russians feel they have little to lose by a further demonstration of strength, while the regional states are still bewildered and there is uncertainty about the U.S. response.

In spite of Mrs. Gandhi's initial tacit blessing for the Russian invasion the new Soviet threat has become an increasing source of concern to India which has been diplomatically to the fore in recent weeks in seeking to defuse regional tensions. As the largest regional power it is both anxious to avoid any Russian expansion that would bring about a great power conflict on its doorstep, while at the same time holding fast to its friendship to Russia as a necessary counterweight to what it sees as the greater long-term danger to it of Chinese technological and military superiority.

Ideally India would like to see a Russian commitment to withdraw their troops linked to a Pakistani pledge to refrain from aiding the insurgents. But so far it has had no luck in lowering the temperature. Mr. Andrei Gromyko, the Soviet Foreign Minister was beating the drum in Delhi this week with warnings of the threat to Afghanistan from rearming Pakistan—by implication holding out the possibility of cross border reprisals against Pakistan.

Echoing similar views the Government-owned Kabul New Times recently in an ominous front page story accused Pakistan of preventing 500 Afghan refugees from returning across the border to Afghanistan. But whether in North-West Pakistan, in Iranian or Pakistani Baluchistan, by open intimidation or subversion, there is increasing anxiety in Kabul that the Russians may be ready for another step forward.

Against such fears a more comforting view heard in Kabul is that the Russians will not risk another adventure until they have consolidated their hold on Afghanistan. It has clearly come as a shock to them how unpopular they are even within sections of Mr. Karmal's own Parcham Party. In Kabul the hatred is tangible.

Tension runs higher in Jelalabad where villagers bring stories of attacks by Russian helicopter gunships. In Herat and Kandahar there have been large outbursts of popular defiance with crowds chanting Islamic slogans from the rooftops. The Government of Babrak Karmal, as Russian appointed, carries no credibility which means there is little to be gained for the Russians by engineering his replacement or a reshuffle of the Cabinet in which there are deep personal divisions. In the last resort, however, the Russians seem to be more worried by their own unpopularity or that of the regime than they are in many east European countries.

It would be a *major* jump for them to shift from accepting the present level of insurgency to attempting to quell it as part of a policy of consolidating their hold. Such an operation would almost certainly require at least double the present number of Russian troops. At the moment the brunt of the fighting in the mountains is being borne by a demoralised Afghan army, which is slowly being re-equipped. For the Russians to take over would be immensely costly as all their supplies from equipment to firewood and fuel are ferried into Afghanistan at an estimated cost of $2.5m a day which allows for depreciation. It could also be costly in lives as since the invasion they are reckoned to have had 2,500 casualties. One Russian source puts it higher.

Historically, most governments in Kabul have learned to live with a level of insurgency that would be thought intolerable in other countries. For the Russians to embark on a protracted campaign in hostile mountainous terrain would risk an indecisive conflict with tribal units that would deal a humiliating blow to their prestige, undermining the image of strength they have projected in the region. It would also destroy the one asset in their favour which is that unlike the regimes of Hafizullah Amin or Noor Mohammed Taraki they have not stirred further resentment among the tribes by interference in tribal customs and ways of life.

The one circumstance in which they might be tempted to move to the offensive would be in the event of the insurgents being heavily reinforced by large scale aid from China, Pakistan, the Moslem world or the west. But the Russians would then be tempted to carry the fight across the border be it to Pakistan or Iranian Baluchistan where the terrain would be easier and the prize potentially greater. It is because of the unpredictable train of such events and the attractions to the Russians of deflecting attention from their problems in Afghanistan that the Indians have been pressing with such urgency for pledges from the Russians and the Pakistanis that would avoid a further Russian advance.

From the secret police hovering around hotels to the Tass reports that fill the newspapers, Afghanistan is to all intents and purposes now a Soviet satellite, but it is evolving an administration that marks it off from both the Soviet Socialist Republics of central Asia which have been assimilated by Russia and from the states of eastern Europe. Babrak Karmal's senior colleagues are all committed Marxists. But in an Islamic, tribal society that under Hafizullah Amin experienced a brutal attempt to moderoise it overnight they are preaching national reconciliation under the banner of broadly based National Democratic Revolution.

The young party firebrands, for instance, who are busily organising political education seminars for the bureaucrats of the Ministry of Commerce leave no doubt that they see this as an interim phase and that they are torchbearers for the expansion of Communism in the region, but tactically after the revulsion against Amin, the regime has seen the logic of slowing down on land reform, redesigning the flag to include an Islamic motif, freeing a number of political detainees and making populist declarations that the linguistic and national rights of minorities will be respected. The importance of this is largely in its appeal to ethnic communities like the Baluch and Turkomen beyond Afghanistan's frontiers.

Key areas

The Russians keep under their thumb key departments such as defence, the interior, communications and the intelligence services as well as the party apparatus and the central committee. They have probably brought in a few hundred additional civilian personnel to man these departments beyond the estimated 1,500 advisers and technicians they had before the invasion. But an exhaustive tour of such economic departments as the planning ministry, the central bank, the ministries of finance, commerce and industry and mines yielded no evidence that there had been a massive inflow since December.

The Russians do not need large numbers of additional experts because their interest in the economy is limited and they are not embarked on a massive overhaul of Afghanistan's cumbersome and slow-moving administration. It would make *little sense to undertake* major reforms while the country is still in such turmoil.

They have strong support from the small band of party workers. In the senior ranks of the bureaucracy many are bewildered, frightened and embarrassed. Having escaped arrest or death under Amin, they see little alternative but working for the Russians. A number are indignant that the west is further isolating the country by cutting off aid and seem to have persuaded themselves that one day the Russians will go. It is significant that in Kabul there has been no mass civil disobedience against the Russians, though in Herat the bazaar shopkeepers stayed closed for a long time in protest.

Even before the invasion the Afghan economy was being gradually integrated into that of the Soviet Union—a process that is now likely to be accelerated. Two years ago over 60 per cent of Afghanistan's outstanding debt of $1.8bn was owed to the Russians but it is certainly grown. There is nothing in the official balance of payments information to show that the Afghans are as yet being charged for the Russian occupation. But they have been victims for some time of Russian dictated prices for their two-way trade and of the Russian foisting on them discarded or inappropriate technology such as spindles for textile mills that now produce cotton thread insufficiently strong for export to the west.

The major interest for the Russians in the Afghan economy continues to be in the country's mineral resources. Only the Russians know the extent of these as much of the data collected by their advisory team in the Ministry of Industry and Mines has not been available to other nations. But resources include iron ore, copper, chromite, lead, zinc, oil, natural gas, precious metals and probably uranium. About 90 per cent of Afghanistan's gas is currently exported to the Soviet Union—at a price which Afghan officials claim has just been raised from $37.8 a thousand cubic metres to $87.5. The Russians are expected to exploit the Ainak copper deposits near Kabul at an estimated expenditure of $1bn. They certainly have their eyes on the rich Hajigak iron ore deposit—also near Kabul—with an iron content of over 60 per cent. The new five-year plan produced at the end of last year (*the first draft was in Russian*) and now being revised reflects Soviet preferences for allocating resources to heavy industry and mineral development as opposed to the World Bank's emphasis on the agricultural sector. But for such investments to be worth while there will need to be more security in the country than there is now. The Russians are hoping that the Afghans will become resigned to their rule. But the Russians may have to prove their strength again before the Afghans accept that there is no alternative. That is the danger for other countries in the region.

Letters to the Editor

Selling British

From Mr. A. Glover.

Sir,—Aside from labour, probably the most difficult problem facing our state motor manufacturer is one of cash flow. Might I suggest that instead of trying "Buy British" advertising campaigns and increasing trade in allowances at dealer level, the company offers a substantial across-the-board discount on its vehicles.

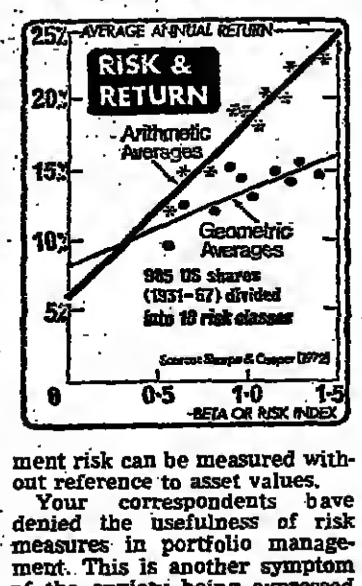
Taking a car with a showroom price of £5,000, assuming a mark up of 20 per cent, the financing cost, at 20 per cent per annum, of keeping that vehicle in stock for, say, three months, would be £200. A reduction in price in excess of this figure would, therefore, cost little in real terms, cash flow would be assisted, and there would be an added advantage in that more BL vehicles would be seen on the streets, thereby further assisting marketing effort.

A. L. C. Glover,
10, Teignmouth Drive,
Rayleigh, Essex.

Average annual return

From the Editors, Risk Measurement Service, London Business School

Sir,—Lex (February 4) suggested that risk could be measured by "beta" and that the evidence shows a strong positive relationship between *risk* and *realised returns*. Various correspondents have disagreed with this. Mr. Grimes (February 8) argues that the study which Lex quoted does not show a strong relationship between risk and return when returns are averaged geometrically. Mr. Hager (also February 8) asserts that in any event beta should not be equated with risk, particularly for pension funds.



Mr. Grimes argues that the beta theory works well in practice in the UK as a method of market timing. But he claims that over the *long* rather than the short run, investors have received virtually no reward for risk. He says that although the average annual return received from high beta portfolios in the U.S. has been some 10 per cent higher than for low beta portfolios, these performance differentials almost completely disappear when long run performance is measured by the geometric average.

The evidence scarcely supports Mr. Grimes' position. The graph shows there is a positive reward for risk, as measured by beta, whether returns are measured as arithmetic or geometric averages. Over the period studied by Sharpe and Cooper, the final value of a high beta portfolio was more than four times that of a low beta portfolio.

Lex explained that the variability of a diversified portfolio is largely determined by the betas of its constituent shares. So a high beta portfolio tends to be considerably more risky than its low beta counterpart. It would be a strange world indeed, if investors expected the same return from high as from low beta portfolios. If this were the case, nobody would want to hold risky, high beta shares!

Mr. Hager argues that beta cannot be equated with risk. This is because there are at least three different definitions of risk: the probability of a loss, the probability of a return below expectations, and the probability of a return which does not match a change in liabilities. If we know the variability of a fund's returns, we can calculate all three of these probabilities. So, a portfolio's variability actually embraces all three of Mr. Hager's definitions of risk. But for diversified portfolios, the fund's variability can be calculated directly from its beta, since all other sources of risk have been diversified away.

Mr. Hager also argues that, since many pension funds pay benefits solely out of their income, contribution rates "need have no regard to short-term fluctuations of asset values." We are, frankly, surprised by this statement. We do not accept the implication that the actuarial profession's extensive work on performance measurement based on market values is to no avail.

Asset values reflect expected future dividend payments, and market prices are the best estimates we have of asset values. Since pension funds should be critically concerned with future income, we cannot accept the view that "asset values are only a matter of concern to those who wish to sell." Mr. Hager is right to say that "beta concentrates on the changes in asset values." There is simply no way that investment risk can be measured without reference to asset values.

Your correspondents have denied the usefulness of risk measures in portfolio management. This is another symptom of the anxiety being expressed by some members of the investment community at the increasing use of modern portfolio techniques in the UK. Now that leading institutions are utilising these methods in investment management, can anyone really afford to ignore the new technology?

(Dr.) E. Dimson and
(Dr.) P. R. Marsh.
Editors, Risk Measurement Service, London Business School,
Sussex Place,
Regent's Park, NW1.

A Loi Monory in Britain

From Mr. R. Robinson.

Sir, — Mr. Brittan argues (Lombard, February 11) that a Loi Monory in Britain would add a further distortion of the capital market to those which already exist. Principally among these he cites the system of tax exemptions for pension funds and life assurance companies which have led to the unhealthy domination of the market by institutional investors. Like him I would like to see the system of special tax privileges dismantled; but unlike him I am enough a realist to recognise that this is unlikely to happen in the near future. Indeed, the *ramifications* of such a change are so great that it is probably desirable that moves in this direction are progressive rather than sudden.

In the meantime the present discrimination against the individual investor might be mitigated by a system along the lines of that in France.

The question of tax relief on nominal capital gains is one which I hope, whatever other thoughts he may have about the taxation of investments, the Chancellor of the Exchequer will deal with in his Budget. At present the taxation of paper capital gains disadvantages the private investor compared with the pension funds and distorts the capital market in favour of income as opposed to capital growth.

Richard Robinson.
The City University Business School,
Lionel Denny House,
23, Goswell Road, EC1.

Enterprise zones

From Mr. J. Anderson

Sir,—It was encouraging to see (February 13) that the Chancellor of the Exchequer is considering some positive measures to help resurrect industrial areas that face a bleak future. There is a danger, however, that the proposed "enterprise zones" may be a little too gimmicky, spreading a few concessions very thinly and overlooking some of the deeper problems.

It is little use giving the proposed concessions to all who take up space in the proposed "enterprise zones." The likelihood is that the main takers would be warehouses and distribution centres, often for importers, with little new employment. Britain already has excellent distribution services, and they need no support. A lack of definition for the scheme betrays the old concern with floorspace rather than employment, just as the recent announcement by the Secretary of State for Wales of £48m for industrial infrastructure and buildings is no guarantee at all that a manufacturing base can be recreated in Wales. The concessions in the enterprise zones should be restricted to direct manufacturing activities, including design and R and D, and preferably the accent should be on some definition of "new technology" where Britain is so far missing out on many of the markets for the 1980s. This selective approach would give much greater benefits in terms of growth and quality of employment, and would be aimed directly at our fundamental economic weakness.

If Ministers are finally persuaded that our post-war failure to stimulate new technical enterprises *is the central cause of* our decline as a manufacturing nation, it should be possible to make the concessions in the enterprise zones much more imaginative and attractive. Tax concessions to new firms that would otherwise never get started in Britain obviously represent no real loss of revenue whatsoever, and would be insignificant when compared with PAYE and social security contributions forgone through our inability to harness our technical skills in the creation of enough new firms to keep the economy dynamic. One obvious inducement—so obvious that it has probably never been closely considered in *Whitehall*—would be to follow the long-standing American practice of allowing individuals who invest in new firms to set off any possible capital loss against income tax. This measure could be restricted to new technical firms, and would sharply alter the ratio between risk and reward. There are various other fiscal measures that could help to stimulate the creation of new technical firms, and in political terms it would help overcome Inland Revenue inertia if these measures could be tested out in the enterprise zones.

The choice of the new zones should be kept flexible, and they should not be restricted to very small trading estates where authorities are anxious to let space. If the concessions were concentrated on new technical enterprises, plus technical manufacturing operations attracted from overseas, it would make much more sense to designate broad zones such as the south Wales coast, central Merseyside and Clydeside, and the whole of docklands in London.

J. G. Anderson.
Cheriton House Farm,
South Cheriton, Somerset.

Pricing fuel

From Mr. F. Hamill

Sir,—The Government has announced enormous increases in the price of gas and electricity over the next few years in order to educate the public to conserve these precious raw materials. *Admittedly these* increases are not needed for profitability. I submit this policy will fail in its main purpose because the man in the street will just accept these increases without changing his habits of domestic *energy* consumption. The inflationary effect of the high energy bills in domestic budgets will be considerable and lead to further wage pressure. Also, the prohibitive pricing-out of heating for the old and the poor is indefensibly cruel.

I would have thought there is another way of conserving energy and educating the public at the same time. We should have progressive prices whereby a minimum quantity of gas or electricity is sold at a low, even subsidised price. The quantity should be based on assessment of the basic need in a small home. The next or the next two steps should be increasingly dearer in order to create an incentive to save.

As far as the industrial user is concerned, it is very ill-considered to introduce an avoidable cost increase by demanding the projected high prices. These will only add to production costs and therefore have accumulative inflationary effect. As the present increases are meant to educate the public, I would have thought that any industrial management will, out of self-interest, make sure in any case that its fuel bill is kept as low as possible.

I am aware that the introduction of progressive pricing will cause extra costs to the gas and electricity undertakings but the effect of *breaking the inflationary* spiral which will strangle the small consumer would be worth the extra effort.

F. Hamill.
Station House, Darkes Lane,
Potters Bar, Herts.

Today's Events

GENERAL

UK: Iron and Steel Trades Confederation private sector delegates meet, London.

Amalgamated Union of Engineering Workers' district committee, Longbridge, meets to discuss strike in suport of sacked BL shop steward Mr. Derek Robinson.

Trades Union Congress printing industries committee meets.

Austin and Pickersgill shipyard goes on three-day week because of steel shortage.

Mr. Patrick Mayhew, Employment Parliamentary Under Secretary, speaks at Industrial Society, London.

New destroyer, HMS Nottingham, launched at Woolston shipyard, Southampton.

Information Management Exhibition and Conference opens, Wembley Conference Centre (until February 21).

Mr. Norman St. John Stevas, Leader of the House of Commons, and Mr. Len Murray, TUC general secretary, speak at opening of Christian Book Fortnight, Quaglino's, W1.

Sir Peter Gadsden, Lord Mayor of London, dines with Farmers' Company, Mansion House.

Boat and Leisure Show, National Exhibition Centre, Birmingham (until February 24).

Overseas: Mr. Reubin Askew, President Carter's international Trade negotiator, in Brussels for meetings with European Community officials.

General election, Canada.

Lord Selsdon leads British trade mission to Iraq.

Middle East Machinery, Light Industry and Maintenance Show, Bahrain (until February 21).

PARLIAMENTARY BUSINESS

House of Commons: Broadcasting Bill, second reading. Motion on the Double Taxation Relief (Taxes on Income) USA Order.

House of Lords: Industry Bill, second reading. Bees Bill committee.

COMPANY MEETINGS

See Financial Diary on page 15.

COMPANY RESULTS

Final dividends: Abbey Panels Investments, Marchwiel, Nottingham Manufacturing, Scottish Eastern Investment Trust, Temple Bar Investment Trust. Interim dividends: Jentique Holdings. Interim figures: Sizewell European Investment Trust.

Agreement imminent on sale of Decca TV

BY JOHN LLOYD

AGREEMENT on the sale of Decca's television division may come this week following talks between Mr. Guln Lalvani, chairman of Binatone, and the Decca management.

Mr. Lalvani has recently returned from the Far East, where he has interested two possible partners in a bid for the Bridgnorth plant. He would not divulge the names of the partners, but it is believed at least one of them is South Korean.

Last year, Mr. Lalvani, whose company has largely been concerned with distribution of electronic goods, acquired the manufacturing rights of the Microvision pocket television developed by Mr. Clive Sinclair.

His plan is to use the Decca plant to manufacture microvisions in large quantities, and to boost their marketing effort. Under Mr. Sinclair, sales of the Microvision, the first of its kind in the world, were disappointing.

Mr. Lalvani said that the fixed assets of the Decca plant were worth around £2m, but that there was over £20m of stock. He has yet to decide if he wished to take over the stock, but says he will consider it "if the price is right."

He also plans to continue the manufacture of colour televisions, which will be sold either under the Binatone name, or the name of his partner, or both.

Dhamai awaits remittances

Dhamai Holdings cannot report any further progress on its tax problems, but has some hope that a solution is in sight.

Until these problems are resolved there is no question of receiving remittances of profits earned in Bangladesh, the directors state. Dividends on the company's preference shares will be paid as usual, but the recommendation on the ordinary must be deferred until the 1979 accounts have been prepared.

For 1979 the profit before tax earned by Dhamai came to £15,758 compared with £13,484 in the previous year. The UK investment company, Sonarupa Investments, increased its pre-tax figure from £9,077 to £17,379.

Utd. Glass shows fall of £4.13m

THE haulage and engineering disputes, together with labour problems at some customers, resulted in pre-tax profits of United Glass falling from £15.05m to £10.92m in the year to December 1, 1979.

At midway, profits were lower at £3.35m (£6.01m), and the directors said the full-year surplus was unlikely to reach the level achieved in 1978.

Turnover of the group, which is jointly owned by Distillers Company and Owens-Illinois Inc., rose from £149.68m to £164.42m in the year.

There was a tax charge of £850,000 (£350,000) which comprised of a provision for ACT related to the interim distribution of £2.8m, less £350,000 written back for a prior year's provision for tax no longer required. No final dividend is proposed.

	1979 £000	1978 £000
Turnover	164,417	149,683
Glass containers	114,115	103,093
Other products	50,302	46,590
Profit bef. interest	12,559	16,084
Glass containers	10,182	12,254
Other products	2,377	3,830
Interest	1,638	1,033
Profit before tax	10,921	15,051
Tax	850	350
Extraord. debits	73	—
Available	9,998	14,701
Dividend	2,800	—
Retained	7,198	14,701

Interest increased from £1.03m to £1.64m, reflecting heavier borrowing as well as higher interest rates.

First fixed bond from Abbey Life

Abbey Life Assurance Company, one of the largest linked life companies in the UK, is expanding its product range by offering a new lump sum investment, the Abbey Fixed Interest Bond.

Abbey Life, the pioneers of linked life assurance, has not previously included a separate fixed interest fund in its range available to investors. This new fund now joins the property fund, the largest property fund available to individual investors, the equity fund, the money fund and the managed fund. Investors can include this latest fund in their switching options.

The fund will be managed by Abbey Life Investment Services, which have been actively managing gilt and other fixed interest investments in other Abbey funds, including the Abbey Gilt and Fixed Interest Unit Trust.

FT Share Information

The following securities have been added to the Share Information Service appearing in the Financial Times:

Anglo Dominion Gold Exploration (Section: Mines—Miscellaneous).
Ashley Industrial Trust (Industrials).
Bio-Kil Chemicals (Chemicals).
Haynes Publishing Group (Newspapers).
Spring Grove Services (Industrials).
Telbedde Ragalla Investments (Leisure).

Restrained optimism at Berisford

Mr. E. S. Margulies, chairman of S. and W. Berisford, views the future decade with restrained optimism, based on the inherently sound structure of the group in the UK and overseas, and its widespread activities over diverse sectors of industry.

He says in his annual statement that the current year has started on a low key in the sugar division, but the secondary metals side has made an excellent start.

The recently-acquired Holmes Halls Tannery should make a useful contribution to the year's results, he adds.

As reported on January 18, pre-tax profits rose from £31.34m to £32.23m on the year to September 30, 1979. The net total dividend is being effectively stepped up to 7.5p (4.60625p).

Acquisitions concluded during the year, coupled with continued inflationary factors, combined to produce higher year-end stockholdings—up from £137m to £190.77m—and net bank borrowings. Bank loans and overdrafts were sharply higher at £134.74m (£77.8m).

The chairman adds that bank borrowings are supported by substantial increases in the facilities placed at the company's disposal by its bankers.

Working capital increased by £10.73m (£17.28m), of which £5.69m was attributable to acquisitions during the year.

Meeting, Tower Hotel, E, on March 10 at noon.

Plaxton's in good position

THE CURRENT year should prove prove successful for Plaxton's (Scarborough), the chairman Mr. F. W. Plaxton told the annual meeting.

Order books in all divisions were good and the adequate supply of chassis had been maintained. Up to the beginning of the month output was on target.

Plaxton's is engaged in luxury coach body-building, the manufacture and supply of vehicle fitments, and building and contracting.

Glasgow Stockholders pays more

THE DIRECTORS of Glasgow Stockholders Trust are recommending an increase in the dividend for 1979 from 2.85p to 3.89p with a final of 2.2p. The total this year includes a Shell dividend of 0.4413p, already paid.

Gross revenue expanded more than 23 per cent from £803,414 to £989,321 and the net asset value of the 25p shares is 146.2p, against 134.5p.

Tax takes £266,043 (£209,879) and dividends absorb £446,167 (£330,708), leaving a retained surplus of £54,177 (£33,129). Stated earnings are 4.38p (3.15p).

Medens Trust up 17% midway

DESPITE INTEREST charges up from £523,709 to £990,170, taxable profits of Medens Trust, instalment finance group, rose by 17 per cent from £276,760 to £325,670 for the six months ended December 31, 1979.

Turnover advanced 22 per cent to £11m (£9.1m) reflecting continuing progress in the hire purchase business, mainly involving car loans.

Mr. Alfred Collins, chairman, says providing there is no material drop in the present level of activity during the rest of the year, "we look forward to maintaining last year's rate of profitability."

For the whole of 1978-79 profits were a record £637,874 (£463,396) from a £20.6m (£13.97m) turnover.

The interim dividend is 0.5p (0.4p) net per 10p share, absorbing £62,731 (£46,096)—last year's final payment was 0.9p.

Tax for the six months takes £177,997, compared with £147,000, and after the dividend cost, the amount retained was £84,942 against £83,664.

Borrowings totalled £13.89m (£12.8m), with institutional lending rising from £8.6m to £10.6m, as at December 31.

Shareholders' funds were £2.73m (£2.54m), and revenue reserves were up from £722,964 to £807,906.

Advances to customers increased by £1.23m to £17.08m.

BOARD MEETINGS

The following companies have notified dates of Board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetable.

TODAY

Interims:—Jentique, Kursaal.
Finals:—Abbey Panels, General Mining and Finance, Marchwiel, Nottingham Manufacturing, Scottish Eastern Investment Trust, Temple Bar Investment Trust, Union Corporation.

FUTURE DATES

Interims:—	
Australian and International Trust	Feb. 20
Gripperrods	Feb. 21
Westminster and Country Properties	Feb. 19
Finals:—	
A.C. Cars	Feb. 27
Anglo-International Investment Trust	Feb. 21
Fisons	Mar. 3
Jacks (William)	Mar. 6
Mount Charlotte Investments	Feb. 26

ALLIANCE INV. £2.5M LOAN

On January 31, Alliance Investment arranged a five year unsecured loan facility of £2.5m with manufacturers Hanover Trust.

This has now been drawn down in full for an initial period of six months at an interest rate of 17¾ per cent per annum.

Deacon Ind. spends £0.5m on further expansion

BY TERRY GARRETT

OVER £500,000 has just been paid by Deacon Industrial Group for the acquisition of M. L. Shelley and Partners, a manufacturer of plastic thermoforming equipment for industrial and packaging applications.

Deacon is a private company set up last May and headed by Mr. Andrew Deacon, an ex-director of County Bank. Mr. Phil Harris and Mr. Hugh Sykes, directors of the quoted retail group Harris Queensway, are also on the Deacon Board.

Shelley has sales of around £1m and profits of about £200,000.

Mr. Deacon said yesterday: "The acquisition of Shelley is an important part of our policy of creating a group of companies specialising in plastic forming machinery."

He also revealed that Deacon was looking at two other companies, both of which could be described as "significant deals."

Deacon Industrial is fast developing a presence in the field of machinery for plastic forming. Last May, it purchased Betol Machinery, a manufacturer of small screw plastic extrusion systems, for over £750,000. Betol earns profits of around £250,000 and exports 75 per cent of its turnover.

Last November, Latymer Engineering, a manufacturer of plastic blow moulding machinery, was bought for £30,000.

The company is also spending around £1m on a new factory for Betol.

Apart from the capital injected by the owning directors, backing has been provided by County Bank and the National Westminster Bank.

SHEAFFER (UK) SALES RISE

In the year ended November 30, 1979, Sheaffer Pens (UK) recorded a 25 per cent growth in turnover despite the difficult trading climate. The retail division opened over 300 new retail outlets, while the business gifts side returned a 15 per cent growth.

In the coming year Sheaffer plans to adopt its range of writing instruments to open up additional market sectors with the introduction of a number of new products.

Lloyd's Life £72m funds

Lloyd's Life Assurance broke all previous performance records in the 12 months to September 30, 1979, claims Mr. Robert J. Kiln in his first chairman's statement accompanying the report and accounts. There were record sales of new business and the life and annuity fund rose to a new high of nearly £60m.

Premium income for the year improved 47 per cent from £15m to £22m and investment income by 57 per cent from £3.5m to £5.4m. Payments on claims were virtually unchanged at £4.74m and total funds at the end of the year amounted to £72m, against £44m at the beginning.

The actuarial surplus of the year amounted to £1.09m, against £771,000 in 1978, of which £460,000 was transferred to shareholders. This shows a reduction on the previous £500,000; but Mr. Kiln explains that to have increased the amount would under current legislation involve informing all policyholders invested in policies linked to the internal fund.

Lloyd's Life has certainly pulled around from the dark days of 1972-74 when heavy losses were incurred, and the capital of the company had to be doubled. The total amount of surplus carried forward now amounts to £1.63m.

The price of the company's shares, which are held by members of Lloyd's, has increased from £1.50 to £3.25 over the year.

SPAIN

1979 High	Low		Feb. 15 Price %
310	200	Banco Bilbao	319
353	304	Banco Central	346
232	199	Banco Exterior	214
285	200	Banco Hispano	219
174	135	Banco Ind. Cat.	135
213	167	Banco Madrid	167
348	203	Banco Santander	261
290	157	Banco Urquijo	169
285	202	Banco Vizcaya	231
272	198	Banco Zaragoza	202
220	100	Dragados	100
93	58	Espanola Zinc	62
69	40	Fecsa	56.5
76	23.5	Gal. Preciados	35
77.5	52.75	Hidrola	62.2
76	62	Iberduero	60
178	110	Petroleos	114.2
135	72	Petroliber	72
130	115	Sogefisa	115
82	53	Telefonica	54.7
69.7	55	Union Elect.	62.5

INTERNATIONAL CAPITAL MARKETS

INTERNATIONAL BONDS

BY FRANCIS GHILES

No end to the slide in dollar issues

WITH INFLATION heading towards 20 per cent in the U.S., industrial production still rising, the broker loan rate up and the discount rate raised by 100 basis points, it is no surprising that, in the words of Ross and Partner's (Securities), the bond market managed to "defy Newton's law and not drop even faster and further than it did last week."

One explanation may be that many dealers appeared to close shop early last Friday, expecting the batch of figures about to be released in New York to compound their woes rather than provide any ground for hope. Thus straight dollar bonds showed falls of about 1 point last week but many dealers expected further falls to follow today.

Short-term interest rates moved up sharply last week, with the three and six-month dollar deposit rates topping the 15 per cent mark. Against this, the average yield on straight dollar bonds stands at a meagre 13.6 per cent, with a growing batch of issues available with yields of just over 14 per cent.

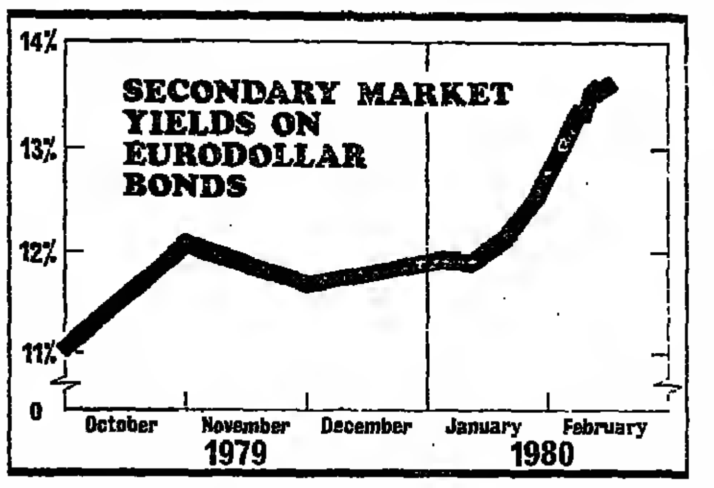
The only way most market participants can see prices going for the time being is down.

First Chicago now calculates that capital losses of $625m have been sustained by the market and its investors on straight dollar bond issues floated last year, whose total face value was $4.2bn. This figure is three times higher than it was late last October in the wake of the Volcker measures.

Thus the latest Orion Bank study is of little comfort. It shows that this year reflows of funds on payment of principal and interest on dollar denominated bonds will be $8.1bn. Virtually none of that is going into bonds today, but the figure points to the formidable buying pressure which might develop if and when it is felt that the U.S. authorities are running a tight policy.

Under the current unsatisfactory circumstances, the only acceptable form of dollar bonds with a pretension to be a fixed interest investment is the convertible FRN. This provides the investor with a floating rate today and the possibility of switching into a reasonably high fixed coupon tomorrow. Two examples were the $75m bond for Standard and Chartered and the planned $200m issue for ENEL.

The week also produced a bond convertible into equity for Gearhart Finance NV and a standard FRN of $50m for SOFTE, which carry a coupon of ¼ per cent over the six-month inter-bank rate. A $200m



Yankee bond was also launched for Export Development Corporation of Canada, through Salomon Brothers.

Most secondary market activity last week remained of a highly professional nature, although dealers said that swap opportunities were more plentiful than hitherto.

For instance the City of Winnipeg 8¾ per cent bonds due 1987 offer a 14 per cent yield to maturity while the Province of Saskatchewan 8¾ per cent bonds due 1986 yield only 13.31 per cent. Both borrowers are double A rated. There are many other instances of similar discrepancies around and some houses are taking advantage of them for their institutional clients.

The other major sector of the Eurobond market was weak: prices of Deutsche Mark denominated foreign bonds shed almost 1½ points on the week; yields on foreign D-Mark bonds, which remain much in line with those available on domestic issues, rose on average from 8.3 to 8.45 per cent and many German dealers expect the trend to continue.

The DM 200m issue for Australia, which had been increased to DM 250m, was priced at par to yield 8.125 per cent. It proved to be a great success though a number of smaller underwriters were surprised by the small allotments they received from the lead manager, Deutsche Bank, which endeavoured to ensure that whatever bonds the underwriters got they would place in firm hands rather than dump in the secondary market.

Swiss franc bonds are the only issues offering a lower return to the investor today than earlier this month and continue to attract support. Average yields on recent Swiss franc bonds are now down to 5.61 per cent and some are much lower.

The Swiss inflation rate fell in January and three and six-month interest rates on Swiss franc deposits have declined sharply. Although these moves are felt by a number of Swiss bankers to be no more than a temporary phenomenon, they nevertheless have brought investors piling in.

By contrast the sterling sector ended the week in a sorry state, with most issues shedding a full point over five trading days. The poor state of the market led S. G. Warburg to postpone the planned £20m eight-year issue for Finance for Industry Int. BV, which was expected to carry a coupon of 14 per cent.

MEDIUM-TERM CREDITS

BY PETER MONTAGNON

Spreads still favour the borrower

THE MOST interesting news of last week was the disclosure of the final terms for Korea Exchange Bank's $300m, eight-year credit being co-ordinated by BA Asia, Chase Manhattan Asia, Lloyds Bank International and Morgan Guaranty Trust. It is the first major borrowing operation by a Korean Government agency since the assassination of President Park Chung-Hee last October.

The credit will carry a spread of ¾ point for the first three years rising to ⅞ thereafter, which is certainly less favourable to the borrower than the terms on its $400m, 10-year credit arranged last year. This had a spread of only ⅝ for the first two years and ¾ for the remaining eight.

Nonetheless the terms do not represent much of a concession to those who, even recently, had been looking for a fairly substantial upward shift of spreads. Indeed, especially in view of the uncertain political situation in Korea, the conditions for the current loan tend to underline the market view that for the time being increases in spreads are both selective and restrained.

Another case in point here is the latest offering by the Central Bank of Finland, which is raising $100m over eight years with a spread of ⅜ for the first two years rising to ½ thereafter.

The conditions for this loan surprised many bankers as they appear extremely generous to the borrower, but it is a club deal and Finland does have a relative scarcity value on the medium-term credit market. Moreover, in contrast with other borrowers it did not arrange large-scale refinancing of its 1980 maturities last year.

Certainly, there is still sentiment in favour of a further shift in conditions towards the lenders' favour this year, but at this stage the major borrowers are still proceeding cautiously in an effort to get the cheapest conditions which will still leave an appetite for additional operations later on.

Thus, Brazil, for example, is still playing a cat and mouse game with the banks and still had not issued a borrowing mandate by the end of last week.

Latest indications from government sources in Brasilia are that the country is making strenuous efforts to trim its borrowing requirements for this year. These are based both on a $2bn run-down of reserves as well as new hopes that exports will rise strongly to a total $20bn this year from $15.2bn last year.

This would leave only about $10bn to be financed on the commercial market, which is about $2bn below the previous official estimate. Even so the amount is large and Eurobankers are becoming impatient to see something definite on the table.

The most likely prospect, as the market sees it, would be a smallish $100m offering by the state oil company, Petrobras, or a similar state agency. This would give Brazil a chance to "test the water," although as far as the market is concerned a much bigger test would come later with a larger loan by the Republic itself.

With a name such as Petrobras, which carries the benefit of substantial collateral business, it should be possible to obtain a spread of about 1 per cent over 10 years in present conditions. This is not as high as the margin of 1¼ deemed suitable to the market a couple of weeks ago. Brazil has, however, been pressing for even better terms in its talks with banks.

Mexico, too, is understood to be trying to drive a hard bargain. Here again no mandate has been announced as yet, although discussions have centred around Nacional Financiera SA (Nafinsa) with a proposal of at least $200m at ⅝ per cent over Libor for three years.

Initial reaction from banks was not favourable.

CURRENT INTERNATIONAL BOND ISSUES

Borrowers	Amount m.	Maturity	Av. life years	Coupon %	Price	Lead manager	Offer yield %
U.S. DOLLARS							
§Elsezier-NDU	20	1995	15	8¾	100	Pierson Heldring	8.750
§†Standard & Chatered Fin. BV	75	1990	7½	5¼¶	100	Schroder Wagg	5.319¶
§Gearhart Finance NV	25	1995	15	7½	*	S. G. Warburg, Prescott, Ball & Turben	*
†SoFTE (g'teed STET)	50	1986	5.6	6¼¶	100	Credit Lyonnais, Istituto Bancario Sao Paulo di Torino	6.606¶
††Export Devel. Corp.	200	1985	5	*	*	Salomon Bros.	*
D MARKS							
‡Australia	250	1990	10	8⅛	100	Deutsche Bank	8.125
SWISS FRANCS							
‡†BNDE (g'teed Morocco)	30	1990	—	6¶	100	BNP (Suisse), Banque Gutzwiller Bungener	6.090¶
‡**§Clarion	50	1985	—	5⅝	100	SBC	5.625
‡**Oesterreichische Kontrbk. (g'teed Austria)	30	1985	—	5⅝	100	Wirtschaft und Privatbank	5.625
‡Austria	100	1990	—	5½	100	UBS	5.500
UNITS OF ACCOUNT							
Union Bk. of Norway	18	1990	10	9½	100	Kredietbank (Lux.) SA	9.500
SPECIAL DRAWING RIGHTS							
Svenska Handelsbanken	15	1985	5	10½	*	KIIC, Nordic Bank, Svenska Handelsbanken	*

* Not yet priced. ‡ Final terms. **Placement. ¶Floating rate note. *Minimum. §Convertible. ††Registered with U.S. Securities and Exchange Commission. Note: Yields are calculated on AIBD basis.

U.S. BONDS

BY STEWART FLEMING

Inflation fears dominate

IN THE face of evidence of accelerating inflation and a renewed surge in the growth of bank credit and the U.S. money supply, the U.S. bond markets slumped to record lows on Friday in spite of an abrupt move by the Federal Reserve to signal that it is stepping up its attack on inflation.

Early on Friday morning, in the wake of the announcement that wholesale prices in January leapt by 1.6 per cent, an annual rate of gain of 19.2 per cent, the Federal Reserve raised its discount rate a full percentage point to a record 13 per cent.

It became apparent in the afternoon, however, that it is not just the evidence of a higher rate of inflation and a stronger than expected economy which sparked the tightening of the monetary screws. The Fed disclosed late on Friday that in the first week of February the U.S. money supply soared by $3.7bn on the narrow M1-A measure and by $3.9bn on the broader M1-B measure. These sharp increases, coupled with a rise of almost $1bn in commercial loans by the big U.S. banks in the same week, have accentuated fears in the markets of a resurgence in the growth of money and credit which could fuel inflation.

The latest figures also tend to support the case of critics of the Fed who have been claiming that its monetary policy has been too relaxed in recent weeks and that it has been permitting too rapid a growth of bank reserves and the availability of credit.

The immediate reaction in the markets to the news was not reassuring. In spite of the Fed's tougher anti-inflationary

U.S. INTEREST RATES

	Week to Feb 15	Feb 8
3-month Treas. Bills	13.1	11.96
3-month Comrcl. Paper	13.10	12.50
Fed funds weekly avge	14.40	12.68
Treas. 30-year Bond	12.14	11.62
Long-term AAA Utility	13.125	13
Long-term AA Indust.	12.625	12.50

steps, bond prices slumped throughout the day and ended at historic lows.

Yields on all U.S. Treasury issues rose for the first time through 12 per cent. The new 11¾ per cent long Treasury Bond, for example, ended the day down 2 points at 96 27/32, where it yields 12.14 per cent. New high's were also recorded in the Treasury bill market, exceeding even the peaks hit after the Fed's October 6 anti-inflation package.

In a Treasury bill sale brought forward to Friday because today is a national holiday for George Washington's birthday, the three-month bills were sold at an average discount rate of 13.162 per cent and the six-month bills at an average discount rate of 13.013 per cent.

The bond and credit markets are evidently facing further tests in the coming week, in particular the release of the consumer price index for January. They will be following closely the testimony which Mr. Paul Volcker, the Federal Reserve chairman, is due to present to Congress on Tuesday morning for signs of how firm the central bank now intends to be in enforcing monetary restraint.

Dealers reported on Friday that they detected evidence aimed at reinforcing the impact of the discount rate increase in the Federal funds market. The central bank permitted Fed funds to trade up to 14¼ per cent without injecting reserves into the banking system — a level above recent intervention points.

How much of an impact the Fed's new moves will have on the money markets will become clearer as the week progresses. Some economists are predicting that the commercial bank prime rate could rise to 15¾ per cent, matching the peak hit after the October 6 announcement.

Feature, Page 10

FT INTERNATIONAL BOND SERVICE

U.S. DOLLAR STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Alcoa of Australia 10 89	60	81⅞	82⅞	0	−1¼	13.45
Alex Howden XW 9¼ 91	30	†73	75	+0¼	−1	14.24
[illegible]						

YEN STRAIGHTS	Issued	Bid	Offer	Change on day	Change on week	Yield
Australia 5.6 83	30	87¼	88¼	−0⅝	−1⅛	9.64
Australia 6½ 88	20	83½	84½	−0⅞	−1¼	9.40
EIB 7¼ 88	12	95⅞	96⅝	−0⅛	−0⅞	8.30
[illegible]						

BONOTRADE INDEX AND YIELD	Medium term		Long term	
Feb. 15	88.77	11.19	74.60	12.53
Feb. 8	89.40	10.96	76.44	12.10
High '80	91.03 (2/1)		80.16	(2/1)
Low '80	88.75 (14/2)		74.54	(14/2)

Tables for DEUTSCHE MARK STRAIGHTS, SWISS FRANC STRAIGHTS, OTHER STRAIGHTS, FLOATING RATE NOTES and CONVERTIBLE BONDS: [illegible]

EUROBOND TURNOVER (nominal value in $m)

	Cedel	Euroclear
U.S. $ bonds		
Last week	514.9	2,044.2
Previous week	859.9	1,890.7
Other bonds		
Last week	334.0	561.8
Previous week	496.1	327.3

* No information available—previous day's price.

† Only one market maker supplied a price.

STRAIGHT BONDS: The yield is the yield to redemption of the mid-price; the amount issued is in millions of currency units except for Yen bonds where it is in billions. Change on week = Change over price a week earlier.

FLOATING RATE NOTES: Denominated in dollars unless otherwise indicated. Coupon shown is minimum. C.dte = Date next coupon becomes effective. Spread = Margin above six-month offered rate (‡ three-month; § above mean rate) for U.S. dollars. C.cpn = The current coupon. C.yld = The current yield.

CONVERTIBLE BONDS: Denominated in dollars unless otherwise indicated. Chg. day = Change on day. Cnv. date = First date for conversion into shares. Cnv. price = Nominal amount of bond per share expressed in currency of share at conversion rate fixed at issue. Prem = Percentage premium of the current effective price of acquiring shares via the bond over the most recent price of the shares.

The list shows the 200 latest international bonds for which an adequate secondary market exists. The prices over the past week were supplied by: Arab Company for Trading Securities SAK; Kredietbank NV; Credit Commercial de France; Credit Lyonnais; Commerzbank AG; Deutsche Bank AG; Westdeutsche Landesbank Girozentrale; Banque Internationale Luxembourg; Kredietbank Luxembourg; Algemene Bank Nederland NV; Pierson, Heldring and Pierson; Credit Suisse/Swiss Credit Bank; Union Bank of Switzerland; Akroyd and Smithers; Bankers Trust International; Bondtrade; Credit Commercial de France (Secs.) London; Citicorp International Bank; Daiwa Europe NV; Deltec Trading Company; Dillon, Read Overseas Corporation; EBC; First Chicago; Goldman Sachs International Corporation; Hambros Bank; IBJ International; Kidder Peabody International; Merrill Lynch; Morgan Stanley International; Nesbitt Thomson; Salomon Brothers International; Samuel Montagu and Co.; Scandinavian Bank; Strauss Turnbull and Co.; Sumitomo Finance International; S. G. Warburg and Co.; Wood Gundy.

Closing prices on February 15

WORLD STOCK MARKETS

NEW YORK

[illegible]

CANADA

[illegible]

HOLLAND

[illegible]

ITALY

[illegible]

NORWAY

[illegible]

SWEDEN

[illegible]

SWITZERLAND

[illegible]

FRANCE

[illegible]

AUSTRALIA

[illegible]

HONG KONG

[illegible]

JAPAN

[illegible]

SINGAPORE

[illegible]

SOUTH AFRICA

[illegible]

Financial Rand US$1.06 (Discount of 12½%)

BRAZIL

[illegible]

TEL AVIV

[illegible]

AUSTRIA

[illegible]

BELGIUM/LUXEMBOURG

[illegible]

GERMANY

[illegible]

DENMARK

[illegible]

Indices

NEW YORK—DOW JONES

	Feb. 15	Feb. 14	Feb. 13	Feb. 12	Feb. 11	Feb. 8	1979-80 High	1979-80 Low	Since Cmpil'n High	Since Cmpil'n Low
● Industr'ls	884.98	895.77	903.84	898.96	889.59	896.75	903.84 (13/2/80)	796.67 (1/11)	1051.70 (11/73)	41.22 (2/7/32)
H'me B'nds	68.16	68.57	68.16	68.54	69.04	68.30	86.12 (15/8)	68.16 (13/2/80)	—	—
Transport	287.20	290.66	297.72	297.23	300.64	306.96	306.60 (8/2/80)	205.78 (27/2)	305.60 (8/2/80)	12.23 (8/7/32)
Utilities	111.20	112.65	113.40	112.92	112.28	111.55	113.48 (13/2/80)	98.24 (24/10)	163.32 (20/4/69)	10.52 (28/4/42)
Trading Vol 000's	46,690	50,540	65,230	48,090	58,866	57,860	—	—	—	—

●Day's high 899.93 low 875.09

Ind. div. yield %	Feb. 8	Feb. 1	Jan. 25	Year ago (approx)
	6.50	5.50	6.40	5.95

STANDARD AND POORS

	Feb. 15	Feb. 14	Feb. 13	Feb. 12	Feb. 11	Feb. 8	1979-80 High	1979-80 Low	Since Cmpil'n High	Since Cmpil'n Low
‖Indust'ls	130.34	132.41	134.47	133.85	132.75	133.70	134.47 (13/2/80)	107.08 (27/2)	134.64 (11/1/73)	3.52 (30/6/32)
†Composite	115.41	116.72	118.44	117.90	117.12	117.95	118.44 (13/2/80)	96.13 (27/2)	125.85 (11/1/73)	4.42 (1/6/32)

	Feb. 13	Feb. 6	Jan. 30	Year ago (approx)
Ind. div. yield %	4.81	4.82	4.89	5.07
Ind. P/E Ratio	8.45	8.22	8.29	8.29
Long Gov. Bond Yield	11.65	11.88	11.18	6.98

N.Y.S.E. ALL COMMON

Feb. 15	Feb. 14	Feb. 13	Feb. 12	1979-80 High	1979-80 Low
66.14	66.82	67.77	67.51	67.77 (13/2/80)	53.88 (27/2)

Rises and Falls

	Feb. 15	Feb. 14	Feb. 13
Issues Traded	1,885	1,871	1,953
Rises	587	415	900
Falls	1,150	1,103	759
Unchanged	358	555	574
New Highs	—	58	165
New Lows	—	80	78

MONTREAL

	Feb. 15	Feb. 14	Feb. 13	Feb. 12	1979-80 High	1979-80 Low
Industrial	372.68	371.32	383.65	384.34	384.69 (11/2/80)	212.18 (2/1)
Combined	344.64	343.84	354.58	355.86	356.06 (11/2/80)	225.90 (2/1)
TORONTO Composite	2044.8	2045.0	2107.7	2117.1	2118.8 (11/2/80)	1518.8 (2/1)

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day		Stocks traded	Closing price	Change on day
IBM	582,800	67⅞	−½	Occidental Pet.	410,700	28½	−½
Texaco	502,200	37⅞	+⅞	Baxter Labs.	405,600	40⅞	+1⅞
Mobil	443,100	63½	+⅛	Amer. Tel. Tel.	387,500	50⅜	−⅛
Olin	423,400	21⅝	+1⅞	Gulf Oil	385,800	44⅞	−⅛
Valero	413,600	20⅝	+⅛	Amer. Cyanamid	347,800	32⅛	+2⅞

	Feb. 15	Feb. 14	Feb. 13	Feb. 12	1979-80 High	1979-80 Low
AUSTRALIA Sydney All Ord. (1/1/80)	919.66	947.47	924.88	954.96	947.47 (14/2/80)	545.72 (2/1/79)
Metals & Mins (1/1/80)	6287.44	6580.95	6412.59	6550.45	6580.95 (14/2/80)	2587.84 (2/1/79)
AUSTRIA Credit Aktien (2/1/62)	68.65	68.77	68.77	68.64	69.49 (7/1/80)	61.55 (2/6)
BELGIUM Belgian SE (31/12/63)	103.83	105.02	105.76	104.65	109.47 (5/10)	98.80 (6/1/79)
DENMARK Copenhagen SE (1/1/73)	81.33	81.88	81.38	81.58	97.48 (25/7)	81.33 (18/2/80)
FRANCE CAC General (29/12/61)	115.9	116.2	114.0	115.9	118.2 (14/2/80)	82.4 (12/2/79)
Ind Tendance (28/12/79)	108.7	109.2	109.7	108.8	109.7 (13/2/80)	95.6 (3/1/80)
GERMANY FAZ-Aktien (31/12/58)	256.05	257.07	253.50	258.84	265.69 (16/1/79)	219.11 (21/1/80)
Commerzbank (Dec. 1953)	741.8	746.0	764.5	726.9	839.69 (16/1/79)	682.5 (21/1/80)
HOLLAND ANP-CBS General (1970)	85.4	85.9	85.2	85.7	84.2 (24/1/79)	81.8 (21/1/80)
ANP-CBS Indust. (1970)	96.6	99.3	68.1	86.4	85.9 (24/1/79)	65.5 (21/1/80)
HONG KONG Hang Seng Bank (31/7/64)	863.17	961.21	937.24	934.03	963.16 (15/2/80)	493.63 (2/1/79)
ITALY Banca Comm. Ital (1972)	81.39	81.47	81.23	85.98	95.88 (4/10)	69.50 (2/1/79)
JAPAN Dow Average (16/5/49)	6827.71	6858.98	6855.89	6828.05	6858.96 (14/2/80)	5925.87 (10/4)
Tokyo New SE (4/1/68)	472.47	472.65	471.97	471.66	472.65 (14/2/80)	435.16 (15/7)
NORWAY Oslo SE (1/1/72)	145.47	144.79	145.47	141.71	144.70 (14/2/80)	74.46 (16/1/79)
SINGAPORE Straits Times (1966)	476.28	475.29	475.42	470.67	476.28 (14/2/80)	346.34 (23/2/79)
SOUTH AFRICA Gold (1958)	547.7	565.5	565.5	556.2	565.1 (11/2/80)	228.40 (17/4)
Industrial (1958)	515.9	517.4	517.2	514.3	517.2 (14/2/80)	279.50 (2/1/79)
SPAIN Madrid SE (28/12/79)	101.09	101.32	100.96	101.01	102.22 (16/1/80)	99.51 (15/1/80)
SWEDEN Jacobson & P. (1/1/58)	390.91	390.54	376.67	381.42	401.34 (8/2/79)	351.37 (24/9)
SWITZERLAND Swiss Bank Cp. (31/12/58)	316.5	317.2	317.4	317.3	323.12 (2/6)	294.80 (3/1/79)
WORLD Capital Intl. (1/1/70)	—	142.2	143.6	142.6	143.5 (15/2/80)	122.2 (1/5/79)

Base values of all indices are 100 except NYSE All Common—50; Standard and Poors—10; and Toronto—1,000; the last named based on 1975. † Excluding bonds. ‡ 400 Industrials. § 400 Industrials plus 40 Utilities, 40 Financials and 20 Transports. e Closed. u Unavailable.

Spanish prices Page 12

APPOINTMENTS

Post at British Rail

Mr. Ian Campbell is to become a vice-chairman of the BRITISH RAILWAYS BOARD from March 1 to succeed Mr. David Bowick, who retired last month. Mr. Geoffrey Myers, at present British Rail's director of strategic development, will be a full-time Board member for five years from that date. Mr. R. B. Reid replaces Mr. Campbell as chief executive (railways).

★

Mr. Ken James has been appointed deputy chairman of BARRATT DEVELOPMENTS (NORTHERN ENGLAND) succeeding Mr. Terry Van Ree, who is now chairman of Barratt Developments (Midlands).

★

The Lord Chancellor and the Lord Advocate have appointed the Lord Wigoder, QC, Mr. D. C. Calcutt, QC and Mr. D. W. Jones-Williams to be members of the COUNCIL ON TRIBUNALS.

★

Mr. A. T. Blomquist, president and chief executive officer of Turner and Newall Industries Inc., has been elected a director and deputy chairman of PHILIP A. HUNT CHEMICAL CORPORATION.

★

Mr. Eddie Pinder has joined the Board of the CROYDON ADVERTISER.

★

The Chancellor of the Duchy of Lancaster has appointed Mr. John Last, Mr. John Manduell and Mr. David Sylvester to the ARTS COUNCIL OF GREAT BRITAIN until March 3, 1984.

★

Mr. Derek Robertson has been appointed by MASSEY-FERGUSON as vice president world export operations, based in Coventry. He joins the company from the Ford Motor Company, tractor division.

★

Mr. Julian Walker and Mr. David Sutton have been appointed joint managing directors of SHROPSHIRE GRAIN.

★

Mr. John L. Christie has been appointed to the Boards of Camel Shipping and Trading, Camel Freight and Camel Insurance Services, members of the CAMEL GROUP. Mr. Herman Lagendijk has become a consultant to Camel Freight.

★

Mr. Darrell W. Wynn has been appointed sales director of EURO-PLEASURE.

★

Mr. David J. Duckham becomes marketing director and Mr. David W. Barney becomes technical services director of ESPLEY-TYAS CONSTRUCTION. Mr. Duckham joins the company from Wimpey where for six years he was marketing manager based at the regional headquarters in Birmingham. He is perhaps better known as a former England International and British Lions Rugby Union player. He is also a rugby correspondent of the Birmingham Evening Mail and the Sports Argus.

★

RACAL - DANA INSTRUMENTS has appointed as deputy managing director Mr. Gordon Taylor, as technical director Mr. Derek Gittins, and as director of operations Mr. Don Chapman.

WEEK'S FINANCIAL DIARY

The following is a record of the principal business and financial engagements during the week. The Board meetings are mainly for the purpose of considering dividends and official indications are not always available whether dividends concerned are interims or finals. The sub-divisions shown below are based mainly on last year's timetable.

TODAY

COMPANY MEETINGS— [illegible]

BOARD MEETINGS— [illegible]

DIVIDEND & INTEREST PAYMENTS— [illegible]

TOMORROW

COMPANY MEETING— [illegible]

BOARD MEETINGS— [illegible]

Finals: [illegible] Meldrum Inv. Tst. Norfolk Capital Clives Paper Mill Thermal Syndicate West Coast and Texas Regional Inv. Tst.

Interim: Westminster and Country Properties

DIVIDEND & INTEREST PAYMENTS— Amalgamated Tin Mines of Nigeria 3p Burco Dean 3p Goldberg (A.) 1.294p ICL 8.4p

WEDNESDAY, FEBRUARY 20

COMPANY MEETINGS— [illegible]

BOARD MEETINGS— [illegible]

Finals: At Industrial Products Anglo-International Inv. Tst. Nuwbold and Burton St. Andrew Tst.

Interims: Consolidated Plantations Gripperrods Pullman (R. and J.) Tor Inv. Tst.

DIVIDEND & INTEREST PAYMENTS— Bank of Ireland Floating Rate Cap. Notes

THURSDAY, FEBRUARY 21

[illegible]

FRIDAY, FEBRUARY 22

[illegible] Ward and Goldstone 0.9p Westland Aircraft 3p Woodhead (Jonas) 1.5p

SATURDAY, FEBRUARY 23

DIVIDEND & INTEREST PAYMENTS— Hampton Gold Mining Areas 1.5p

SUNDAY, FEBRUARY 24

DIVIDEND & INTEREST PAYMENTS— Berec Ln. 3pc Kensington and Chelsea Var. Rate Red. 1983 £7.21875

BOND DRAWINGS

REPUBLIC OF AUSTRIA
6¾% Bonds 1982

S. G. WARBURG & CO. LTD., announce that the redemption instalment of U.S.$1,850,000 due 15th March, 1980, has been met by purchases in the market to the nominal value of U.S.$299,000 and by a drawing of Bonds to the nominal value of U.S.$1,551,000.

Tha distinctive numbers of tha Bonds, drawn in the presence of a Notary Public, are as follows:—

836	838	840	841	850 to	853	858	881	863 to	865
	868	870 to	804	820 to	925	980 to	986	995 to	1018
1019 to	1021	1025	1027		1029	1034 to	1038	1081 to	1084
1086 to	1092	1096 to	1101		1118	1122 to	1175	1181 to	1184
1180 to	1195	1198 to	1301	1303 to	1305	1308	1314	1316	1317
1318	1320	1325 to	1328		1333	1341 to	1346	1348	1349
1351 to	1367	1361 to	1373		1375	1377 to	1394	1396 to	1400
1413	1415	1418 to	1461	1464 to	1472	1481 to	1514		1518
1522 to	1528	1542 to	1845	1548 to	1550		1552	1554 to	1858
1561 to	1584	1588 to	1594	1602 to	1611	1617 to	1822	1625 to	1650
	1653	1655 to	1663		1667	1670 to	1689	1691 to	1689
1706 to	1708	1746 to	1747	1803 to	1805	1807 to	1814	1817 to	1855
1883 to	1879	1882 to	1884	1889 to	1891	1894 to	1897	1899 to	1808
1908 to	1913	1916 to	2000	2081 to	2095	2201 to	2230	2232 to	2285
2287 to	2292	2294 to	2340	2351 to	2354	2356	2357	2383	2384
2367 to	2382	2385 to	2420	2423 to	2435	2431 to	2438	2440 to	2442
2444 to	2446	2448	2449	2451 to	2454	2457 to	2464		2535
2571 to	2574	2576 to	2606	2610 to	2615	2618 to	2622	2628 to	2634
2644	2646	2650	2651	2653 to	2855	2872 to	2683		17916
17918 to	17820	17822	17923		17925	17928 to	17930	17935 to	17965
17968 to	17972	17978 to	18000	18007 to	18019	18021 to	18042	18045 to	18067
18065 to	18089	18093 to	18118	18127 to	18149	18163	18164	18168 to	18214
18218 to	18248	18264 to	18268	18265 to	18298	18314	18315	18317 to	18324
	18329	18331 to	18340	19290 to	19364	19367 to	19374	19385 to	19389
19397 to	19417	20678 to	20712						

On 15th March, 1980, there will become due and payable upon each Bond drawn for redemption, the principal amount thereof, together with accrued interest to said date, at tha office of:—

S. G. WARBURG & CO. LTD.,
30, Gresham Street, London, EC2P 2EB.,

or with one of tha other paying agents named on the Bonds.

Interest will cease to accrua on tha Bonds called for redemption on and after 15th March, 1980. Bonds so presented for payment must have attached all coupons maturing after that date.

U.S.$4,000,000 nominal Bonds will remain outstanding after 15th March, 1980.

The following Bonds previously drawn for redemption on the dates given below, have not as yet been presented for payment.

15th March, 1975

Nos: 9782 : 9783 : 9889 : 9896 : 10142 : 10143 : 10273 : 10274 : 10365 to 10367 : 10391 to 10399 : 10604 : 10605 : 10626 : 11135 to 11138

15th March, 1976

Nos: 18 to 20 : 494

15th March, 1977

Nos: 19704 : 20018 : 20020 : 20568 : 20569 : 20675

15th March, 1978

Nos: 3088 : 3653 : 3729 : 4892 : 4898 : 4899 : 4918 : 4923 : 4924 : 4926 to 4929 : 4998

15th March, 1979

Nos: 6987 to 6989 : 7039 : 7083 : 7120 : 7151 : 7220 : 7575 : 7578 to 7591 : 7605 : 7770 : 7870 : 7871 : 8270 : 8271 : 8310 : 8323 : 8358 : 8376 : 8389 : 8390 : 8590 : 11193 to 11197 : 11202 : 11203 : 11354 : 11355 : 11404 : 11956 : 11957 : 12002

30, Gresham Street, London, EC2P 2EB.

18th February, 1980

Fire damage costs UK nearly £1m daily

BY OUR INSURANCE CORRESPONDENT

LAST WEEK the British Insurance Association's monthly report on the estimated cost of fire damage for 1979 came up with £335.3m as the probable direct cost of fires in England, Wales and Scotland — virtually £1m a day. Because of inflation 1980's daily bill will inevitably be in excess of £1m.

The BIA's estimates never include any figure for the cost of business interruption — which in the long term over the whole country ought to be in some regular proportion to the cost of direct damage.

Consequential losses might perhaps amount to a third of direct damage but insurers agree that although the computation of such a figure would be interesting, many doubt that it would be of any practical use.

The estimates of direct damage for the last three years were: 1977 — £261.7m, 1978—£309.3 and 1979—£335.3m. The percentage increase from 1977 to 1978 was just over 18 per cent while from 1978 to 1979 it was a little under 15 per cent. None of these figures have been corrected in the light of actual claims payments run off or to take account of inflation.

December was doubly an unhappy month for property insurers because of the Welsh and West Country floods just after Christmas. BIA estimated last week that the total cost of insured losses, in both commercial and domestic premises, was £25.5m.

But no attempt has been made to quantify the amount of uninsured damage, which on the commercial side, could be substantial because of the difficulty in obtaining commercial cover in several of the high hazard areas affected.

In the same period, rebuilding costs have risen by around 35 per cent, so in real terms the cost of direct damage continues at very much its existing level.

Clearly the closing weeks of 1979 proved expensive for fire insurers—as have the, yet unquantified, opening weeks of this year. It is now thought that the British Aerospace fire at Weybridge will cost the market in excess of £25m.

January's British Aerospace loss dwarfs December's two large losses—£9m in a refrigerated warehouse in Newport and £12m in the St. John's shopping precinct in Liverpool. But there were eleven other fires in December, all likely to cost over £250,000 each.

December was doubly an unhappy month for property insurers because of the Welsh and West Country floods just after Christmas. BIA estimated last week that the total cost of insured losses, in both commercial and domestic premises was £25½m—this estimate covers the cost both of repairing buildings and repairing or replacing stock and contents.

But no attempt has been made to quantify the amount of uninsured damage, which, on the commercial side, could be substantial because of the difficulty in obtaining commercial cover in several of the high hazard areas affected.

While the severe December floods affected some densely populated industrial and residential areas, the cost would have been far greater had the counties affected had dense urbanisation as parts of the Midlands and South East.

The £25½m estimate indicates the enormous potential cost of London area flooding—the risk of which insurers must live with from one monthly high tide to the next until the Thames barrage is finally complete.

Parliamentary business this week

TODAY

COMMONS — Broadcasting Bill, second reading. Motion on the Double Taxation Relief (Taxes on Income) (USA) Order 1980.

LORDS—Industry Bill, second reading. Bees Bill, committee stage.

SELECT COMMITTEE—Home Affairs. Subject: The law relating to public order, processions and public meetings. Witnesses: Metropolitan Police. Association of Chief Police Officers. (Room 8, 4.30 pm).

TOMORROW

COMMONS—Debate on Opposition motion on the need to continue to pay pensions and other social security benefits weekly through the Post Offices. At 7 pm Opposed private business. Motion on EEC documents on water pollution. Reserve Forces Bill (Lords) second reading, and remaining stages of the Residential Homes Bill (Lords).

LORDS — New Hebrides Bill (HL), third reading. Competition Bill, committee stage.

SELECT COMMITTEE—Foreign Affairs. Overseas Development Sub-Committee. Subject: implications for and development of the increase in overseas students fees. Witnesses: Professor R.N. Haszeldine, Univ. of Manchester. World Univ. Services. Nat. Union of Students. (Room 16, 15.15 pm).

WEDNESDAY

COMMONS — Debate on the Scottish economy. Motions on the Farm and Horticulture Capital Grant (Variation) Schemes Order.

LORDS—Debate on the political and economic situation in Cyprus. Debate on an effective maritime policy. Debate on the social and economic problems of Wales.

SELECT COMMITTEES — Employment. Subject: The legal immunity of trade unions. Witness: Mr. J. Prior, Employment Secretary (Room 6, 6 pm). Education, Science and Arts Committee. Subject: The funding and organisation of courses in higher education. Witnesses: The Association of County Councils and the Association of Metropolitan Authorities (Room 6, 10.30 am). *Industry and Trade.* Subject: Import and Export Trade. Witnesses: Export Credit Guarantees Dept. (Room 16, 10.45 am). Social Services. Subject: Perinatal and Neonatal Mortality. Witnesses: Mr. P. Jenkin, Social Services Secretary and officials of the DHSS. (Room 15, 4.30 pm.) Treasury and Civil Service. Subject: Efficiency of Civil Service. Witness: Sir Derek Rayner (Room 8, 4.30 pm). Energy Committee. Subject: The Government's statement on the new nuclear power programme. Witnesses: Sir Alan Cottrell and Mr. Ghoja Etemad. (Room 8, 10.45 am). Public Accounts. Subject: Thames Tidal Defences. Witnesses: Ministry of Agriculture, Fisheries and Food. (Room 16, 5 pm). Foreign Affairs. Subject: The consequences of Soviet expansion for British foreign policy. Witnesses: Foreign and Commonwealth Office. (Room 15, 10.45 am). Subject: Olympic Games. Witness: Mr. D. Hurd, Minister of State. (Room 15, 12 noon.)

THURSDAY

COMMONS—Debate on airports policy.

LORDS—Protection of Trading Interests Bill, report stage. Sea Fish Industry Act 1970 (Increase in Rate of Levy) Order 1980.

SELECT COMMITTEES—Agriculture. Subject: Economic, social and health implications for the UK of Common Agricultural Policy on milk and dairy products. Witnesses: The Dairy Trade Federation. (Room 16, 11 am). Home Affairs Sub-Committee on Race Relations and Immigration. Subject: Race Relations and the "Sus" law. Witnesses: Metropolitan Police and the West Midlands Police. (Room 15, 4.30 pm.)

FRIDAY

COMMONS — Private Members' Bills.

BUSINESSMAN'S DIARY

UK TRADE FAIRS AND EXHIBITIONS

Date	Title	Venue
Feb. 18—21	European Information Management Exhibition and Conference (01-995 4806)	Wembley Conference Centre
Feb. 25—29	International Electrical Exhibition (0483 222888)	NEC, Birmingham
Feb. 25—29	International Instruments, Electronics and Automation Exhibition (021-705 6707)	NEC, Birmingham
Feb. 25—29	International Pneumatics and Hydraulics Exhibition, including Compressors and Power Transmission Equipment (021-705 6707)	NEC, Birmingham
Feb. 26—28	Drawing Office Show—DOMMDA (01-242 3621)	Wembley Conference Centre
Feb. 29—Mar. 9	Camping, Outdoor Holiday Exhibition and Motor Caravan Show (01-262 2886)	Olympia
Mar. 2—6	Autoquip Exhibition (01-235 7000)	Wembley Conference Centre
Mar. 2—6	International Contract Furnishing and Interior Design Exhibition (01-540 1101)	Olympia
Mar. 3—6	National Mail Order Merchandise Show (0272 292561)	Royal Horticultural Halls
Mar. 4—6	Automatic Laboratory Techniques Exhibition (01-855 7771)	West Centre Hotel, London
Mar. 4—15	Chelsea Antiques Fair (0727 56069)	Chelsea Old Town Hall
Mar. 4—29	Ideal Home Exhibition (01-353 4000)	Earls Court
Mar. 5—6	Fire Protection Association LPG Conference and Exhibition (0277 74290)	Connaught Rooms, London
Mar. 11—13	Microforum Europe (01-405 6233)	Wembley Conference Centre
Mar. 11—13	Ready-to-Wear Fashion Fair (01-637 2400)	Bristol
Mar. 17—21	Brewex '80—International Brewing, Bottling and Allied Trades Exhibition (021 705 6707)	NEC, Birmingham
Mar. 26—28	London Fashion Exhibition (01-385 1200)	Olympia
Mar. 26—28	Viewdata '80 Exhibition (0695 39262)	Wembley Conference Centre

OVERSEAS TRADE FAIRS AND EXHIBITIONS

Current	Middle East Machinery, Light Industry and Plant Maintenance Show (021-454 4416) (until February 21)	Bahrain
Feb. 19—22	Techex 80 World Fair for Technology Exchange	Atlanta, U.S.
Feb. 22—24	International Men's Fashion Week (01-409 0956)	Cologne
Feb. 23—27	International Trade Fair for Musical Instruments, Musical Accessories and Musical Publishers (01-734 0543)	Frankfurt
Feb. 24—29	Gift Show (01-215 7877)	New York
Feb. 25—28	Automotive Engineering Congress and Exhibition (01-215 7877)	Detroit
Feb. 26—29	World Fair of Technology Exchange—TECHEX (01-584 5749)	Copenhagen
Feb. 26—29	Offshore South East Asia Exhibition (01-486 1951)	Singapore
Mar. 1—10	International Art of Homemaking Exhibition (01-439 3964)	Paris
Mar. 2—5	European Fashion Fair (01-215 7877)	New York
Mar. 2—6	International Spring Trade Fair (01-734 0543)	Frankfurt
Mar. 2—9	International Agricultural Exhibition (01-439 3964)	Paris
Mar. 4—12	IMF 80 International Fair for Mechanical Handling (0727 63213)	Basle
Mar. 10—13	International Footwear Fair (01-589 4891)	Elda
Mar. 15—21	World Photographic Exhibition—WORLD PHOTO (021-705 6707)	Singapore
Mar. 16—20	Middle East Business Equipment Show (01-486 1951)	Bahrain
Mar. 23—31	Spring Fair (01-938 8200)	Dubai

BUSINESS AND MANAGEMENT CONFERENCES

Feb. 18—19	AMR International: Energy Management in Buildings (01-262 2732)	Cumberland Hotel, W1
Feb. 18—19	ADMAP Seminars: Calculating the effects of advertising—How useful are they to the advertiser? (01-379 6576)	Lygon Arms Hotel, Worcs.
Feb. 19	The Economist: Joint-Ventures with the Chinese (01-839 7000)	Cafe Royal, W1
Feb. 19—20	CCC: Avoidance of Contractual Disputes in Construction Projects (01-222 6362)	Amsterdam
Feb. 20—21	IPM: Changes in the Law—What you should do (01-387 2844)	Connaught Rooms, WC2
Feb. 21	Abacus: Performance Bonds and Guarantees: Problems and Pitfalls (0604 881300)	Europa Hotel, W1
Feb. 25—29	Moroccan Ministry of Trade and Industry in co-operation with UN Industrial Development Organisation: International Industrial Investment Forum (01-584 8827)	Rabat
Mar. 3—4	FT Conference: World Motor Industry (01-236 4382)	Geneva
Mar. 4	The Institute of Directors: Are Chips Fattening? (01-940 4925)	Pall Mall, SW1
Mar. 5	British Printing Industries Federation: Books UK (01-242 6904)	London Press Centre
Mar. 5—7	SOCPO: Facing Change in the 1980's—The Role of the Personnel Function (Worcester 353366)	NEC, Birmingham
Mar. 5—6	BIM: Getting to Grips with Mini and Micro Computers (01-405 3456)	Parker Street, WC2

CONTRACTS AND TENDERS

COMPANY NOTICES

Companies and Markets

INTNTL. COMPANIES and FINANCE

Cautious hopes as MAN order book strengthens

AUGSBURG — Maschinenfabrik Augsburg Nuernberg AG (MAN) recorded a 13 per cent rise in its parent company order book levels in the first half of the 1979/80 fiscal year, said Mr. Otto Voisard, chairman of the managing board.

The parent company order book stood at DM 3.6bn and the group order book stood at DM 8.2bn on June 30 last, the 1978/79 company report shows.

Mr. Voisard told the annual meeting that the rise in orders guarantees sufficient employment for most divisions in the group, but added that there are no grounds for special optimism in view of rises in wages and interest costs.

MAN expects orders from oil-exporting countries to increase, following recent oil price rises, though the orders will not be as extensive as in 1973-74.

Oil exporting countries' share of MAN's foreign orders fell to 14 per cent in 1978-79 from 22 per cent in 1977-78, which Mr. Voisard attributed to liquidity problems in OPEC, rather than policial developments in Iran.

He said MAN expects group capital investment in 1979-80 to remain at around the 1978-1979 levels, which totalled about DM 214m. Gutehoffnungshuette Aktienverein (GHH) is the major shareholder in MAN.

MAN expects no financing problems in the near future, as capital increases in the last two years have injected sufficient liquidity into the company.

Commercial vehicle sales at home continued to record good results in the first half of the current year, after rising 19 per cent in volume, and 22 per cent in value during the whole of 1978-79, while exports picked up in the first six months of 1979-80 after stagnating in the previous year.

Bus sales revived in the first half of 1979-80 helped by major orders from abroad.

Mr. Voisard went on to say that business began to improve in the diesel engine division at the end of 1978-79 and that on a monthly average orders were 70 per cent higher in the first six months of 1979-80 than the average for the whole of 1978-79.

Reuter

Higher payout at Danske Bank

BY HILARY BARNES IN COPENHAGEN

DANSKE BANK has proposed an increase in the dividend from 12 to 13 per cent after announcing an increase in net profits from DKr 253m ($1.3bn) to DKr 337m and in operating profits from DKr 342m to DKr 421m.

A substantial increase in the adjustment of security values from DKr 159m in 1978 to DKr 239m in 1979 also contributed to total earnings.

The bank's assets increased to DKr 38.3bn, compared with DKr 34.4bn in 1978, a rise of 11.1 per cent. Deposits increased from DKr 17.4bn to DKr 18.8bn.

A substantial part of the lending increase took place on the foreign side. Foreign loans established by the bank for customers increased by 35 per cent. A Caymans Islands branch set up by the bank last year ended the year with assets of DKr 981m.

The bank's subsidiary in Luxemburg, Dankse Bank International, increased earnings from Lux.Fr. 68.4m. to Lux.Fr. 108.5m.

● Incentive, the Swedish development group with interests in more than a dozen small engineering and consumer products companies, easily met its target of a pre-tax profit "considerably better" than the 1978 figure of SKr 75m, by earning SKr 124m ($30m) last year, writes Victor Kayfetz from Stockholm.

The board proposes to raise dividend on ordinary shares by SKr 1.50 to SKr 7.50 while paying unchanged dividends on preference shares.

General Tire holders sue

NEW YORK — Shareholders in General Tire and Rubber have sued the board for more than $50m over the expected loss of licences to operate three television stations held by its subsidiary, RKO General.

The suit, filed in the U.S. District Court for the Southern District of New York, seeks to compell the board to pay for all damages sustained by the two companies.

Reuter

Six companies undertake synthetic fuels study

STAMFORD — A study to determine the feasibility of constructing a coal gasification plant in Louisiana is being undertaken by a group of six companies.

The plant would produce medium-BTU synthetic gas for the participating companies for a variety of purposes including compliance with the Power Plant and Industrial Fuels Use Act of 1978, expansion of their operations sales to other industrial customers, and feedstocks for products such as methanol, the companies said.

The companies in the group are Airco, Bechtel, Cities Service, Conoco, PPG Industries and United Energy Resources. Bechtel will also serve as engineer for the study.

AP-DJ

Goldsmith lifts stake in Basic Resources

By Anthony Rowley in Hong Kong

SIR JAMES GOLDSMITH'S Hong Kong-based General Oriental Company has taken a further stake in the Guatemalan company, Basic Resources International, in which Sir James already has interests.

In July last year, the Hong Kong Stock Exchange declined a request from Basic Resources, a mineral exploration and production company, for a share listing. The only reason given was that the company was at that time "inappropriate for listing on the exchange."

General Oriental, which is 74 per cent owned by Sir James Goldsmith and related company and family interests, said that it had acquired shares and warrants of Basic Resources S.A. for a total of U.S.$22.63m in cash.

The announcement to the Hong Kong Stock Exchange did not say how many shares and warrants were acquired, but stated that the purchase price for the shares was U.S.$13 a share and the price of the warrants was based upon this price. It was not disclosed whether the shares and warrants represented new or existing capital in Basic Resources.

Basic Resources had 11.81m nominal U.S.$3.30 shares in issue as of October last year.

Sydney trader reinstated

SYDNEY — Futures broker Ross McConnell Kitchen Pty (RMK) said that it has been reinstated on the Sydney futures Exchange as from the start of trading on Friday.

RMK was suspended by the Exchange at its own request on February 13 but no reasons for the move were given either by RMK or the Exchange.

RMK said that it raised $1.2m in equity capital from creditors and clients over the last 48 hours, enabling it to reconstruct its balance sheet and resume trading.

Reuter.

PENDING DIVIDENDS

	Date	Announcement last year		Date	Announcement last year
AAH	Mar. 6	Int. 3.025	Johnson and Firth Brown	Mar. 10	Int. 1.3
Anglo-Amer. Inv.	Mar. 13	Final 820c	Kleinwort Benson	Mar. 13	Final 3.51
Armstrong Equipment	Mar. 21	Int. 0.88	Lex Service	Mar. 6	Final 2.7
Ault and Wiborg	Mar. 9	Final 1.44	Liverpool Daily Post	Mar. 21	Final 5.008
BSR	Mar. 8	Final 3.319	*Lloyds Bank	Feb. 22	Final 5.514
BTR	Mar. 14	Final 5.0	London Shop Prop.	Mar. 1	Int. 0.601
Barclays Bk.	Feb. 22	Final 7.41	*Marchwiel	Feb. 18	Final 3.0
Barratt Devs.	Mar. 19	Int. 2.9	*Metal Closures	Mar. 19	Final 2.805
Bath and Portland	Feb. 22	Final 2.014	*Midland Bank	Mar. 14	Final 9.942
Bejam	Mar. 21	Int. 0.77	Mucklow (A. & J.)	Mar. 29	Int. 1.32
Bell (A.)	Mar. 21	Int. 1.769	*NatWest	Feb. 28	Final 7.15
*Bibby (J.)	Mar. 11	Final 8.732	Newman Tonks	Mar. 23	Int. 1.5
Bowring (C. T.)	Mar. 22	Final 2.348	*Nottingham Manuf.	Feb. 18	Final 2.622
British Aluminium	Mar. 21	Final 42.85	Philips' Lamps	Mar. 22	Final due
British Enkalon	Feb. 28	Final nil	*Ransomes Sims	Feb. 25	Final 8.58
BP	Mar. 15	Final 16.865	*Rentokil	Mar. 4	Final 1.15
British Vita	Mar. 1	Final 1.6	Rockware	Mar. 21	Final 3.57
Brooke Bond	Mar. 13	Int. 0.915	Rolls-Royce Motors	Mar. 12	*Final 2.995
*Brown Bros.	Feb. 27	Int. 0.53	Royal Dutch	Mar. 8	Final Fl 5.75
*Carrington Viyella	Feb. 29	Final 1.661	*Royal Insce.	Mar. 3	Final 11.5
*City Offices	Feb. 18	Final 0.761	Shell	Mar. 8	Final 6.985
Collins (Wm.)	Mar. 10	Final 3.094	*Sime Darby	Feb. 20	Int. 11%
*Comm'l Bk. Aust.	Feb. 18	Int. 8.5 cents	Smith and Nephew	Mar. 15	Final 1.780
*Commercial Union	Feb. 28	Final 5.673	Steetley	Mar. 15	Final 4.423
*Cons. Plants	Feb. 21	Int. 15%	Stone-Platt	Mar. 22	Final 1.33
Corah	Mar. 8	Final 1.17	Tiger Oats	Feb. 21	Final 33 cents
Dewhey Day	Mar. 21	Int. 0.75	Tilling (T.)	Mar. 21	Final 3.01
De Beers Cons. Mines	Mar. 6	Final 45 cents	*Transport Dev.	Mar. 13	Final 2.357
Duccile Steels	Mar. 13	Int. 2.119	Tricentrol	Mar. 15	Final 0.637
Expanded Metal	Mar. 18	Final 2.345	*Tube Invs.	Mar. 16	Final 12.421
Fairclough Constr.	Mar. 13	Final 2.0	*Turner and Newall	Mar. 12	Final 7.0
*Fisons	Mar. 3	Final 8.337	Unilever	Mar. 21	Final 27%
*General Accident	Feb. 27	Final 4.817	*Union Corpn.	Feb. 19	Final 32 cents
*Gen. Mining	Feb. 18	Final 39 cents	Utd. Biscuits	Mar. 13	Final 1.508
Gibbons Dudley	Mar. 22	Final 2.051	Utd. City Merchants	Mar. 8	Int. 0.45
Grindlays	Feb. 27	Final 2.071	*Utd. Real Prop.	Feb. 20	Int. 1.25
Hall Eng.	Mar. 18	Final 2.471	Vantona	Mar. 20	Final 5.01
Harrisons Mlyn. Ests.	Mar. 19	Int. 1.5	Weir Gp.	Mar. 21	Final 3.86
Hepworth Ceramic	Mar. 20	Final 2.684	Willis Faber	Mar. 20	Final 6.84
*HK & Shanghai Bank	Feb. 26	Final HK$0.60	Wolf Elect. Tools	Mar. 22	Final 0.788
Hoover	Mar. 1	Final 5.38	Wolseley-Hughes	Mar. 18	Int. 3.66
*ICI	Feb. 28	Final 8.465	Woolworth (F. W.)	Mar. 7	Final 3.245
*IMI	Feb. 28	Final 2.025	Yorkshire Chems.	Mar. 22	Final 2.44
Inveresk	Feb. 28	Final 1.417			
Jacobs (John. I.)	Mar. 21	Final 1.35			

* Board meeting intimated. † Rights issue since made. ‡ Tax free. § Scrip issue since made. ¶ Forecast.

Public Works Loan Board rates

Effective from February 9

Years	Quota loans repaid by EIP†	At‡	at maturity§	Non-quota loans A* repaid by EIP†	At‡	at maturity§
Up to 5	15¼	15¼	15¼	16¼	16¼	16¼
Over 5, up to 10	15½	15½	14¾	16½	16	15½
Over 10, up to 15	15¾	14½	14¾	16¼	15¾	15¾
Over 15, up to 25	14¾	14½	14½	15½	15½	15½
Over 25	14½	14½	14½	15¼	15	15

* Non-quota loans B are 1 per cent higher in each case than non-quota loans A. † Equal instalments of principal. ‡ Repayment by half-yearly annuity (fixed equal half-yearly payments to include principal and interest). § With half-yearly payments of interest only.

BASE LENDING RATES

A.B.N. Bank	17 %	■ Hambros Bank	17 %
Allied Irish Bank	17 %	■ Hill Samuel	§17 %
Amro Bank	17 %	C. Hoare & Co.	†17 %
American Express Bk.	17 %	Hongkong & Shanghai	17 %
Henry Ansbacher	17 %	Industrial Bk. of Scot.	17½%
A P Bank Ltd.	17 %	Keyser Ullmann	17 %
■ Arbuthnot Latham	17 %	Knowsley & Co. Ltd.	18½%
Associates Cap. Corp.	17 %	Langris Trust Ltd.	17 %
Banco de Bilbao	17 %	Lloyds Bank	17 %
Bank of Credit & Cmce.	17 %	Edward Manson & Co.	18 %
Bank of Cyprus	17 %	Midland Bank	17 %
Bank of N.S.W.	17 %	■ Samuel Montagu	17 %
Banque Belge Ltd.	17 %	■ Morgan Grenfell	17 %
Banque du Rhone et de la Tamise S.A.	17½%	National Westminster	17 %
Barclays Bank	17 %	Norwich General Trust	17 %
Bremar Holdings Ltd.	18 %	P. S. Refson & Co.	17 %
Brit. Bank of Mid. East	17 %	Rossminster	17 %
■ Brown Shipley	17 %	Ryl. Bk. Canada (Ldn.)	17 %
Canada Perm't Trust	18 %	Schlesinger Limited	17 %
Cayzer Ltd.	17 %	E. S. Schwab	17 %
Cedar Holdings	17 %	Security Trust Co. Ltd.	18 %
■ Charterhouse Japhet	17 %	Standard Chartered	17 %
Choulartons	17 %	Trade Dev. Bank	17 %
C. E. Coates	17 %	Trustee Savings Bank	17 %
Consolidated Credits	17 %	Twentieth Century Bk.	17 %
Co-operative Bank	*17 %	United Bank of Kuwait	17 %
Corinthian Secs.	17 %	Whiteaway Laidlaw	17½%
The Cyprus Popular Bk.	17 %	Williams & Glyn's	17 %
Duncan Lawrie	17 %	Wintrust Secs. Ltd.	17 %
Eagil Trust	17 %	Yorkshire Bank	17 %
E. T. Trust Limited	17 %		
First Nat. Fin. Corp.	18½%		
First Nat. Secs. Ltd.	18 %		
Robert Fraser	18 %		
■ Antony Gibbs	17 %		
Greyhound Guaranty	17 %		
Grindlays Bank	‡17 %		
■ Guinness Mahon	17 %		

■ Members of the Accepting Houses Committee.
* 7-day deposits 15%, 1-month deposits 15¼%.
† 7-day deposits on sums of £10,000 and under 15%, up to £25,000 15¼% and over £25,000 15½%.
‡ Call deposits over £1,000 15%.
§ Demand deposits 15%.

LOCAL AUTHORITY BOND TABLE

Authority (telephone number in parentheses)	Annual gross interest	Interest payable	Minimum sum	Life of bond
	%		£	Year
Alyn and Deeside (0244 831212)	15½	½-year	5,000	1
Bury (061 764 6000)	15¼	½-year	1,000	1
Bury (061 764 6000)	14¾	½-year	1,000	2
Knowsley (051 548 6555)	15	½-year	1,000	1
Redbridge (01-478 3020)	15	½-year	1,000	1
Redbridge (01-478 3020)	14¾	½-year	200	2-3
Redbridge (01-478 3020)	14	½-year	200	5-6

Companies and Markets

CURENCIES, MONEY and GOLD

The turn of the screw

BY COLIN MILLHAM

The turn of the screw on liquidy in European money markets continued to tighten last week. London, Paris and Amsterdam remained short of day-to-day funds, while central banks took steps to ease the situation.

Substantial amounts of money moved around the London market, with the £500m injection of funds through sale and repurchase of gilt-edged stock announced by the Bank of England on Wednesday balanced against Friday's call of £450m on the long tap. Also on Friday £275m of tobacco tax was due, but set against that was a rate support payment from the central authorities of £156m.

One unexpected windfall as far as the discount houses were concerned was the repurchase agreement on eligible bank bills made by the authorities on Wednesday.

In effect this put over another £100m into the system, and is the first time since corset controls were introduced that a repurchase agreement has been carried over into the following banking month. The bills will be resold to the houses during the second week in March, and this came as such a surprise to the market that it contributed significantly to the reduction in interest rates in London on Wednesday.

At the same time the Dutch authorities may have helped the domestic market by taking in guilders through currency swaps. The Treasury's cash position has improved thanks to the inflow of tax, but an issue of Dutch Treasury bills is expected shortly to help meet official commitments, while the country remains troubled by arguments about public spending cuts and the present wage freeze.

As another sign of the times the Danish National Bank, and New York Federal Reserve Bank raised their discount rates to 13 per cent on Friday.

Paris call money touched 12⅜ per cent last week, equal to the level reached in late December which was the highest point for five years. The Bank of France added funds to the money market on various occasions by purchases of first category paper, but this was offset by Friday's auction of FFr 2.4bn of 12-month Treasury bills.

Conditions in Amsterdam have been very nervous ahead of this week's new quota for the banking system. Interest rates are expected to rise initially as banks borrow funds from the money market, while maintaining their individual quotas.

GOLD

	February 18		February 14	
Gold Bullion (fine ounce)				
Close	$656-661	(£286-288.3)	$665-670	(£287¼-289¼)
Opening	$675-677	(£291-292.8)	$663-668	(£286¼-288¼)
Morning fixing	$674.50	(£292.017)	$688	(£298.158)
Afternoon fixing	$667	(£289.571)	$688	(£294.473)
Gold Coins				
Krugerrand	$660-665	(£288-291)	$675-680	(£291½-293½)
Mapleleaf	$660-670	(£286-293)	$675-685	(£291¼-296¼)
New Sovereigns	$166-186	(£72-74)	$171-175	(£75¼-76)
King Sovs	$178-191	(£77-80)	$178-191	(£77½-79¼)
Victoria Sovs	$170-182	(£76-81)	$181-183	(£77¼-70¼)
French 20s	$156-159	[illegible]	$160-166	[illegible]
100 Cor. Austria	$635-645	[illegible]	$635-655	[illegible]
$20 Eagles	$795-785	[illegible]	$646-658	[illegible]
$10 Eagles	[illegible]	[illegible]	$790-800	[illegible]
$5 Eagles	[illegible]	[illegible]	[illegible]	[illegible]

OTHER MARKETS

Feb. 15	£	$		£ Note Rates
Argentina Peso	5863-3883	1680-1690	Austria	28.65-28.90
Australia Dollar	2.0645-2.0696	0.8895-0.9015	Belgium	66.80-67.00
Brazil Cruzeiro	103.48-104.48	45.05-45.50	Denmark	12.55-12.60
Finland Markka	8.51-8.52	3.6985-3.7000	France	9.34-9.40
Greek Drachma	88.564-91.995*	38.20-38.40	Germany	4.00-4.02¼
Hong Kong Dollar	11.20-11.22¼	4.8960-4.9000	Italy	1890-1965
Iran Rial	n/a	n/a	Japan	560-565
Kuwait Dinar(KD)	0.623-0.634	0.2790-0.2795	Netherlands	4.40-4.48½
Luxembourg Frc.	64.90-66.00	28.26-28.31	Norway	11.31-11.60
Malaysia Dollar	4.9840-4.9970	2.1710-2.1790	Portugal	106-109
New Zealand Dlr.	2.3350-2.3560	1.0155-1.0190	Spain	152-160½
Saudi Arab. Riyal	7.71-7.81	3.3350-3.3550	Sweden	9.57-9.63
Singapore Dollar	4.9350-4.9460	2.1510-2.1550	Switzerland	3.68-3.73
Sth. African Rand	1.8870-1.8935	0.8215-0.8245	United States	2.30-2.31
U.A.E. Dirham	8.60-8.70	3.7405-3.7435	Yugoslavia	50-52½

Rate given for Argentina is free rate. * Indication only.

THE DOLLAR SPOT AND FORWARD

Feb. 15	Day's spread	Close	One month	% p.a.	Three months	% p.a.
UK†	2.2850-2.3150	2.2945-2.2955	0.70-0.60c pm	3.40	1.85-1.75 pm	3.14
Ireland†	2.1280-2.1330	2.1280-2.1300	0.80-0.70c pm	4.22	2.25-2.15 pm	4.12
Canada	1.1583-1.1626	1.1593-1.1596	0.04c pm-par	0.22	0.02-0.10 pm	0.21
Nethlnd.	1.9140-1.9200	1.9140-1.9160	0.48-0.38c pm	2.69	1.40-1.30 pm	2.82
Belgium	28.18-28.31	28.29-28.31	pm-1c dis	0.21	1-3 dis	0.03
Denmark	5.4295-5.4385	5.4285-5.4305	0.70-1.00ore dis	-7.49	7.00-8.40dis	-6.03
W. Ger.	1.7350-1.7435	1.7410-1.7420	0.87-0.77pf pm	5.65	2.68-2.58 pm	5.99
Portugal	47.25-47.37	47.30-47.37	15-25c dis	-4.86	50-70 dis	-4.49
Spain	66.47-66.67	66.63-66.67	12-22c dis	-3.06	55-70 dis	-3.75
Italy	804.25-806.15	805.65-806.15	1-1½lire dis	-1.30	2-2½ dis	-0.43
Norway	4.9800-4.9760	4.9660-4.9680	1.50-0.70ore pm	2.46	3.50-3.40 pm	2.80
France	4.0650-4.0810	4.0790-4.0810	0.90-0.70c pm	2.35	2.75-2.65 pm	2.65
Sweden	4.1500-4.1556	4.1540-4.1555	0.35-0.15ore pm	0.72	0.55-0.25 pm	0.41
Japan	242.25-243.80	243.05-243.15	1.20-1.05y pm	5.55	3.45-3.30 pm	5.56
Austria	12.44½-12.466	12.45½-12.45¾	5.60-5.00gro pm	5.11	18.50-16.50 pm	5.62
Switz.	1.6150-1.6300	1.6290-1.6297	1.43-1.36c pm	10.28	4.00-3.93 pm	9.74

† UK and Ireland are quoted in U.S. currency. Forward premiums and discounts apply to the U.S. dollar and not to the individual currency.

THE POUND SPOT AND FORWARD

Feb. 15	Day's spread	Close	One month	% p.a.	Three months	% p.a.
U.S.	2.2850-2.3150	2.2945-2.2955	0.70-0.60c pm	3.40	1.85-1.75 pm	3.14
Canada	2.6540-2.6845	2.6650-2.6670	0.60-0.40c pm	3.82	2.70-2.60 pm	3.97
Nethlnd.	4.39-4.44	4.39½-4.40½	3¼-2¼c pm	7.85	7¾-6¾ pm	6.61
Belgium	64.85-65.35	64.80-65.00	20-10c pm	2.77	65-45 pm	3.08
Denmark	12.49-12.59	12.48-12.47	1-3ore dis	-1.93	4¼-5¾ dis	-1.56
Ireland	1.0730-1.0805	1.0740-1.0750	par-0.10p dis	-0.56	0.14-0.24dis	-0.71
W. Ger.	3.99-4.03¼	3.99¼-4.00¼	3⅞-2⅞pf pm	8.00	9¾-8¾ pm	8.27
Portugal	108.30-109.30	108.35-108.85	par-50c dis	-2.74	25-125 dis	-2.75
Spain	152.70-153.80	152.80-153.00	25c pm-25 dis	0.00	20pm-80dis	-1.08
Italy	1,846-1,864	1,848½-1,849½	2pm-par	0.65	1-2 dis	-0.22
Norway	11.16-11.27	11.16-11.17	3⅝-2⅝ore pm	3.49	8¾-2¾ pm	3.09
France	9.35-9.42	9.35¼-9.36¼	4-3c pm	4.48	12-11 pm	4.91
Sweden	9.53-9.62	9.53½-9.54½	2-1ore pm	1.89	4½-3½ pm	1.58
Japan	555-565	557¼-558¼	3.45-3.10y pm	5.77	7.45-7.25 pm	5.12
Austria	28.55-28.85	28.58-28.63	20-15gro pm	7.35	55-45 pm	7.11
Switz.	3.72¼-3.77	3.73¼-3.74¼	4¼-3¼c pm	13.69	12¼-11¼ pm	12.10

Belgian rate is for convertible francs. Financial franc 66.40-66.50. Six-month forward dollar 2.73-2.68c pm, 12-month 4.35-4.25c pm.

EURO-CURRENCY INTEREST RATES

The following nominal rates were quoted for London dollar certificates of deposit: one-month 14.35-14.45 per cent; three-months 14.85-14.95 per cent; six-months 15.00-15.10 per cent; one year 14.65-14.75 per cent.

Feb. 15	Sterling	U.S.Dollar	Canadian Dollar	Dutch Guilder	Swiss Franc	West German Mark	French Franc	Italian Lira	Asian $	Japanese Yen
Short term	N/A	14¼-14½	13½-13¾	10½-11½	4½-5	8-8½	12-12⅛	13-10	13⅞-14¼	7-10
7 days' notice	17½-18½	14¼-14⅝	13½-13¾	11-11¼	4½-4⅝	8¼-8½	12-12¼	13½-10½	14-14¼	8-8½
Month	18-18¼	14⅝-14⅞	13¾-14⅛	11⅛-11¼	5⅛-5⅜	8½-8⅝	12-12¼	16-17	14¼-14⅝	8-8¾
Three months	18½-18¾	14⅞-15⅛	14-14⅜	11⅛-11¼	5¼-5½	8⅝-8¾	12⅝-12⅞	16½-17½	14⅞-15⅛	9-9¼
Six months	17⅞-17¾	15-15¼	14½-14¾	11¼-11⅜	5½-5⅝	8⅝-8¾	14¾-15¼	17½-19½	14⅞-15⅛	9½-9¾
One year	16⅞-17⅛	14⅞-15	14¼-14½	11⅜-11⅝	5½-5⅝	8⅝-8¾	15-15¼	20¼-21¼	14¾-14⅞	9-9½

Long-term Eurodollar two years 14¼-14¾ per cent; three years 13⅞-14⅛ per cent; four years 13⅝-13⅞ per cent; five years 13⅝-13⅞ per cent nominal closing rates. Short-term rates are call for sterling, U.S. dollars, Canadian dollars and Japanese yen; others two-days' notice. Asian rates are closing rates in Singapore.

LONDON MONEY RATES

Feb. 15 1980	Sterling Certificate of deposit	Interbank	Local Authority deposits	Local Auth. negotiable bonds	Finance House Deposits	Company Deposits	Discount market deposits	Treasury Bills ♦	Eligible Bank Bills ♦	Fine Trade Bills ♦
Overnight	—	16-19	—	—	—	16¼-17¼	16¼-17	—	—	—
2 days notice	—	—	17⅛-17⅞	—	—	—	—	—	—	—
7 days or	—	—	—	—	—	—	—	—	—	—
7 days notice	—	17-17¼	17⅝-18	—	—	—	—	—	—	—
One month	17⅝-17⅞	17¼-17⅜	17⅞-17⅞	18-18¼	18	17¾	16⅞-16½	—	—	—
Two months	18⅛-18	17¾-17⅝	—	18⅛-18¼	17⅞	17⅞	16¾	15¾	16	19¼
Three months	17⅝-17¾	17⅝-17⅞	17⅜-17⅞	18⅛-18	17¾	—	16¼	15½	16	19
Six months	16⅞-16¾	16⅞-17	18⅛-17	17-16⅞	17¼	—	16⅛	—	—	18½
Nine months	16⅞-16½	16-16⅛	—	16⅞-16⅛	16¾	—	—	—	—	—
One Year	16¼-15⅞	16⅛-15⅞	—	17⅛-16⅛	16¾	—	—	—	—	—
Two years	—	—	16⅛-16	—	—	—	—	—	—	—

Local authorities and finance houses seven days' notice, others seven days fixed. *Long-term local authority mortgage rates nominally three years 15¾-16 per cent; four years 16¼ per cent; five years 15⅞-15⅞ per cent. ♦Bank bill rates in table are buying rates for prime paper. Buying rates for four-month bank bills 16⅜ per cent; four-month trade bills 17 per cent.

Approximate selling rates for one-month Treasury bills 15⅞ per cent; two-months 15⅞ per cent; three-months 16⅛ per cent. Approximate selling rate for one-month bank bills 17⅞ per cent; two-months 17⅞ per cent; three-months 17⅞ per cent; one-month trade bills 19 per cent; two-months 17⅜ per cent and three-months 17⅜ per cent.

Finance Houses Base Rates (published by the Finance Houses Association) 17 per cent from February 1, 1980. Clearing Bank Deposit Rates for sums at seven days' notice 15 per cent. Clearing Bank Rates for lending 17 per cent. Treasury Bills: Average tender rates of discount 16.1643 per cent.

CURRENCY RATES

Feb. 15	Bank rate %	Special Drawing Rights	European Currency Unit
Sterling	17	0.570458	0.563308
U.S. $	12	1.31649	1.43798
Canadian $	14	1.53978	1.66668
Austria Sch.	3¾	16.4091	17.9314
Belgian F	10½	37.1908	40.5986
Danish K	13	7.10163	7.88030
D'Mark	6	2.28672	2.49989
Guilder	9	2.52305	2.75593
French Fr.	9½	5.36687	5.85597
Lira	15	1060.43	1158.15
Yen	8¼	321.092	350.431
Norwgn. Kr.	9	6.45929	7.05558
Spanish Pta.	8	87.7441	95.8545
Swedish Kr.	9	5.46843	5.97248
Swiss Fr.	2	2.16836	2.53357

RECENT ISSUES

EQUITIES

Issue Price p	Amount Paid Up	Latest Renunc. Date	1979/80 High	1979/80 Low	Stock	Closing Price p	+ or −	Div.	Times Covered	Gross Yield	P/E Ratio
363	F.P.	20/3	413	384	G.P. Now	396	−15	[illegible]	[illegible]	[illegible]	[illegible]
161	F.P.	—	102	100	Child Health Res'ch	101	—	—	—	—	—
‡10	F.P.	18/1	18	10	Keep Inv. Trust 5p	10	—	—	—	—	—
§§	F.P.	—	86	65	Lon.Merc'tSecs.Defd.	78	—	—	—	—	—
—	F.P.	—	287	255	Wereldhave NVDFl.20	256	—	QFl.6	1.1	5.5	16.7

FIXED INTEREST STOCKS

Issue Price £	Amount Paid Up	Latest Renunc. Date	1979/80 High	1979/80 Low	Stock	Closing Price £	+ or −
[illegible]	F.P.	[illegible]	[illegible]	[illegible]	Aurora 6.25% Cum. Pref.	[illegible]	
[illegible]	F.P.	[illegible]	[illegible]	[illegible]	B'rnem'th & District W'ter Red. Prf. 1985	[illegible]	
¶	F.P.	[illegible]	[illegible]	[illegible]	Clifford(Chas.) 12% Cum. Pref.	[illegible]	
[illegible]	F.P.	[illegible]	[illegible]	[illegible]	Felixstowe Dock 9½% Cum Red Pref.	[illegible]	
[illegible]	F.P.	[illegible]	[illegible]	[illegible]	Provincial Laundries 1% Cum. Pref.	[illegible]	
[illegible]	F.P.	[illegible]	[illegible]	[illegible]	Rk'm'nw'h & Uxbridge Wtr. 9%Rd Prf 1985	[illegible]	
[illegible]	F.P.	[illegible]	[illegible]	[illegible]	Thorn Elec.7% Con.Red.SndOumPrf	[illegible]	

"RIGHTS" OFFERS

Issue Price p	Amount Paid Up	Latest Renunc. Date	1979/80 High	1979/80 Low	Stock	Closing Price p	+ or −
33½	Nil	25/3	86	66pm	Edwards (Louis C.)	86pm	
30	F.P.	4/1	35	33	Elson & Robbins	33	
60	Nil	—	445	360	Hammerson Prop. A	320	
461	Nil	—	40pm	30pm	Hanimex Corp.	30pm	
60	Nil	—	425pm	150pm	Pancontinental	150pm	
25	Nil	—	48pm	40pm	Paringa	40pm	
55	Nil	—	60pm	45pm	Premier Cons. Oilfields	45pm	
R0.60	Nil	—	50pm	40pm	Rand London Coal Units	26pm	

Renunciation date usually last day for dealing free of stamp duty. b Figures based on prospectus estimate. g Assumed dividend and yield. u Forecast dividend; cover based on previous year's earnings. F Dividend and yield based on prospectus or other official estimates for 1979. Q Gross. T Figures assumed. ‡ Cover allows for conversion of shares not now ranking for dividend or ranking only for restricted dividends. § Placing price to public. pt Pence unless otherwise indicated. ¶ Issued by tender. ‖ Offered to holders of ordinary shares as a "rights." ** Issued by way of capitalisation. §§ Reintroduced. ¶¶ Issued in connection with reorganisation, merger or takeover. ‖‖ Introduction. □ Issued to former preference holders. ■ Allotment letters (or fully-paid). ● Provisional or partly-paid allotment letters. ★ With warrants. †† Unlisted security. ‡‡ Issued as units comprising 2 participating prf. shares and 1 ord. share at R3.50 per unit. † Dealings under special rule.

UNIT TRUST SERVICE

OFFSHORE & OVERSEAS—contd.

Lloyds Bk. (C.I.) U/T Mgrs. [illegible]

Lloyds Bank International, Geneva [illegible]

M & G Group [illegible]

Samuel Montagu Ldn. Agents [illegible]

Murray, Johnstone (Inv. Adviser) [illegible]

Negit S.A. [illegible]

Nat. Westminster Jersey Fd. Mgrs. Ltd. [illegible]

Negit Ltd. [illegible]

Pacific Basin Fund [illegible]

Phoenix International [illegible]

Providence Capitol Life Ass. (C.I.) [illegible]

Quest Fund Mngmnt. (Jersey) Ltd. [illegible]

Richmond Life Ass. Ltd. [illegible]

Rothschild Asset Management (C.I.) [illegible]

Rothschild Asset Mgt. (Bermuda) [illegible]

Royal Trust (C.I.) Fd. Mgt. Ltd. [illegible]

Save & Prosper International [illegible]

Schlesinger International Mngt. Ltd. [illegible]

Schroder Life Group [illegible]

J. Henry Schroder Wagg & Co. Ltd. [illegible]

Sentry Assurance International Ltd. [illegible]

Singer & Friedlander Ldn. Agents [illegible]

Standard Chartered Intl. Bd. Fd. [illegible]

Stronghold Management Limited [illegible]

Surinvest (Jersey) Ltd. [illegible]

Surinvest Trust Managers Ltd. [illegible]

TSB Unit Trust Managers (C.I.) Ltd. [illegible]

TSB Gilt Fund Managers (C.I.) Ltd. [illegible]

Tokyo Pacific Holdings N.V. [illegible]

Tokyo Pacific Hldgs. (Seaboard) N.V. [illegible]

Tyndall Group [illegible]

Union-Investment-Gesellschaft mbH [illegible]

Intl. Management (C.I.) Ltd. [illegible]

van Cutsem & Associates Ltd. [illegible]

S. G. Warburg & Co. Ltd. [illegible]

Warburg Invest. Mngt. Jrsy. Ltd. [illegible]

Wardley Investment Services Ltd. [illegible]

World Wide Growth Management [illegible]

Wren Commodity Trust [illegible]

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

Abbey Unit Tst. Mngrs. (a)
72-80, Gatehouse Rd., Aylesbury 0296 5941

Abbey Amer. Gth. Tst.	50.2	53.1	.....	1.89
Abbey Capital	37.8	40.8	.....	5.37
Abbey General	49.3	52.7	.....	5.61
Abbey Gilt & F.I. Tst.	100.6	107.0	.....	4.68
Abbey Income	43.0	46.4	.....	6.22
Abbey Intl. Bd. Tst.	92.1	97.1	.....	5.66
Abbey Inv. Tst. Fnd.	39.9	43.1	.....	5.42
Equitas Prog. Trust	73.2	79.1	.....	5.46

Allen Harvey & Ross Unit Tst. Mngrs.
45, Cornhill, London EC3V 3PB. 01-623 6314.

AHR Gilt & Pref.	90.3	95.1xd	.....	13.02

Allied Hambro Group (a)(z)
Hambro Hse., Hutton, Brentwood, Essex.
01-588 2851 or Brentwood (0277) 211459

Balanced Funds

Allied 1st.	80.6	86.3	.....	5.57
Brit. Inds. Fund	72.1	77.1	.....	5.84
Growth & Income	43.2	46.3	.....	5.45
Elect. & Ind. Dev.	39.5	42.3	.....	4.96
Allied Capital	80.8	86.5	.....	5.09
Hambro Fund	122.9	131.5	.....	5.39
Hambro Acc. Fund	151.4	160.9	.....	5.22

Income Funds

High Yield Fd.	70.4	75.3xd	.....	9.83
High Income	74.3	79.5	.....	7.42
A. H. Eq. Inc.	42.4	45.4xd	.....	7.69

International Funds

International	30.1	32.2xd	.....	3.36

Discretionary Unit Fund Managers
22 Blomfield St., EC2M 7AL. 01-638 4485

Dis. Inc. Feb. 8	210.2	224.2	.....	5.31

E. F. Winchester Fund Mngt. Ltd.
44, Bloomsbury Square, WC1A 2RA 01-623 8893

Great Winchester	17.7	19.6xd	.....	5.92
Gt. Winchester O'seas	20.8	23.1xd	.....	2.38

Emson & Dudley Tst. Mngmnt. Ltd.
28b Albemarle St., W1. 01-493 3211

Emson Dudley Tst.	76.4	82.2	.....	6.00

Equity & Law Un. Tr. M.♥ (a)(b)(c)
Amersham Rd., High Wycombe. 0494 33377

Equity & Law	79.4	83.5	.....	4.71

Fidelity International Management Ltd.
62-63, Queen St., London, EC4R 1AD. 01-248 4891

American	26.5	27.9	-0.7	1.00
Fixed Interest	25.4	26.8	-0.1	12.1
Growth + Income	29.3	30.9	-0.2	7.90
Special Sits.	29.6	31.2	-0.4	3.00

James Finlay Unit Trust Mngt. Ltd.
10-14, West Nile Street, Glasgow. 041-204 1321

J. Finlay Internat'l	29.2	31.4	.....	2.33
Accum. Units	35.4	38.1	.....	2.33
J. Finlay High Income	34.3	36.9	.....	9.36
J. Finlay Euro.Fin.	23.1	24.8	.....	3.41
Accum. Units	28.5	30.7	.....	3.41
J. Finlay Fd. In. Tst.	33.5	36.0	.....	5.28
Accum. Units	40.4	43.5	.....	5.28

Prices on February 13. Next dealing February 20.

Framlington Unit Mgt. Ltd. (a)
64, London Wall, EC2M 5NQ. 01-628 5181

American	54.4	57.8	.....	1.26
American Turnaround	53.4	56.8	.....	2.00
Capital Tst.	55.0	58.4	.....	4.64
(Accum. Units)	55.0	58.4	.....	4.64
Extra Income Trust	49.2	52.2	.....	10.10
Income Tst.	38.8	41.2	.....	8.08
Int. Growth Fd.	45.4	48.2	.....	2.08
(Accum. Units)	47.3	50.8	.....	2.08

Friends' Provdt. Unit Tr. Mgrs.♥

INSURANCE PROPERTY BONDS

OFFSHORE & OVERSEAS FUNDS

Continued on previous page

FT SHARE INFORMATION SERVICE

BRITISH FUNDS

"Shorts" (Lives up to Five Years)

[illegible]

Five to Fifteen Years

[illegible]

Over Fifteen Years

[illegible]

Undated

[illegible]

INTERNATIONAL BANK

[illegible]

CORPORATION LOANS

[illegible]

COMMONWEALTH & AFRICAN LOANS

[illegible]

LOANS

Public Board and Ind.

[illegible]

Financial

[illegible]

FOREIGN BONDS & RAILS

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

BANKS AND HIRE PURCHASE

[illegible]

BANKS & HP—Continued

[illegible]

Hire Purchase, etc.

[illegible]

BEERS, WINES AND SPIRITS

[illegible]

BUILDING INDUSTRY, TIMBER AND ROADS

[illegible]

CHEMICALS, PLASTICS

[illegible]

CHEMICALS, PLASTICS—Cont.

[illegible]

DRAPERY AND STORES

[illegible]

ELECTRICALS

[illegible]

ENGINEERING MACHINE TOOLS

[illegible]

ENGINEERING—Continued

[illegible]

FOOD, GROCERIES, ETC.

[illegible]

FOOD, GROCERIES—Cont.

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

FINANCIAL TIMES

PUBLISHED IN LONDON & FRANKFURT

Head Office: The Financial Times Limited, Bracken House, 10 Cannon Street, London EC4P 4BY
Telex: Editorial 8954871. Advertisements: 885033. Telegrams: Finantimo, London.
Telephone: 01-248 8000.
Frankfurt Office: The Financial Times (Europe) Ltd., Frankenallee 68-72, 6000 Frankfurt-am-Main 1.
Telex: Editorial 416052. Commercial 416193. Telephone: Editorial 7598 234. Commercial 7598 1.

INTERNATIONAL AND BRITISH OFFICES

EDITORIAL OFFICES

Amsterdam: P.O. Box 1296, Amsterdam-C. Telex 16527 Tel: 276 796
Birmingham: George House, George Road. Telex 338650 Tel: 021-454 0922
Bonn: Pressehaus 11/104 Heussallee 2-10. Telex 8869542 Tel: 210039
Brussels: 39 Rue Ducale. Telex 23283 Tel: 512-9037
Cairo: P.O. Box 2040. Tel: 938510
Dublin: 8 Fitzwilliam Square. Telex 5414 Tel: 785321
Edinburgh: 37 George Street. Telex: 72484 Tel: 031-226 4120
Frankfurt: Frankenallee 71-81. Telex: 416052 Tel: 7598 234
Johannesburg: P.O. Box 2128. Telex 8-6257 Tel: 838-7545
Lisbon: Praca de Alegria 58-1D, Lisbon 2. Telex: 12533 Tel: 362 508
Madrid: Espronceda 32, Madrid 3. Tel: 441 6772
Manchester: Queen's House, Queen Street. Telex: 666813 Tel: 061-834 9381
Mexico: Paseo de la Reforma 122-10, Mexico 6DF. Tel: 535 13 68
Moscow: Kutuzovsky 14, Apartment 1, Moscow. Telex: 7900 Tel: 243 1635
New York: 75 Rockefeller Plaza, N.Y. 10019. Telex: 66390 Tel: (212) 541 4625
Paris: 36 Rue du Sentier, 75002. Telex: 220044 Tel: 236 57.43
Rome: Via della Mercede 55. Telex: 610032 Tel: 678 3314
Stockholm: c/o Svenska Dagbladet, Raalambsvagen 7. Telex: 17603 Tel: 50 60 88
Tehran: P.O. Box 11-1879. Telex: 213930 Tel: 682698
Tokyo: 8th Floor, Nihon Keizai Shimbun Building, 1-9-5 Otemachi, Chiyoda-ku. Fax: Tel: 241 2920
Washington: 914 National Press Building, Washington D.C. 20045 Telex 440340 Tel: (202) 47 8676

ADVERTISEMENT OFFICES

Birmingham: George House, George Road. Telex 338650 Tel: 021-454 0922
Edinburgh: 37 George Street. Telex: 72484 Tel: 031-226 4139
Leeds: Permanent House, The Headrow. Tel: 0532 454969
Manchester: Queen's House, Queen Street. Telex 666813 Tel: 061-834 9381
Frankfurt: Frankenallee 68-72. Telex: 416193 Tel: 7598 1
New York: 75 Rockefeller Plaza, N.Y. 10019. Telex 238409 Tel: (212) 489 8300
Paris: 36 Rue du Sentier, 75002. Telex 220044 Tel: 236.86.01
Tokyo: Kasahara Building, 1-6-10 Uchikanda, Chiyoda-ku. Telex J27104 Tel: 295 4050

Overseas advertisement representatives in
Central and South America, Africa, the Middle East, Asia and the Far East.
For further details, please contact:
Overseas Advertisement Department,
Financial Times, Bracken House, 10 Cannon Street, London EC4P 4BY

SUBSCRIPTIONS

Copies obtainable from newsagents and bookstalls worldwide or on regular subscription from Subscription department—Financial Times in London, Frankfurt and New York

For Share Index and Business News Summary in London, Birmingham, Liverpool and Manchester, Tel: 246 8026

INDUSTRIALS—Continued

[illegible]

INSURANCE

[illegible]

INSURANCE—Continued

[illegible]

LEISURE

[illegible]

MOTORS, AIRCRAFT TRADES

Motors and Cycles

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING ADVERTISING

[illegible]

PROPERTY

[illegible]

PROPERTY—Continued

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

INVESTMENT TRUSTS—Cont.

[illegible]

Finance, Land, etc.

[illegible]

FINANCE, LAND—Continued

[illegible]

OIL & GAS

[illegible]

OVERSEAS TRADERS

[illegible]

RUBBERS AND SISALS

[illegible]

TEAS

India and Bangladesh

[illegible]

Sri Lanka

[illegible]

Africa

[illegible]

MINES

CENTRAL RAND

[illegible]

EASTERN RAND

[illegible]

FAR WEST RAND

[illegible]

O.F.S.

[illegible]

FINANCE

[illegible]

DIAMOND AND PLATINUM

[illegible]

MINES—Continued

CENTRAL AFRICAN

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Yld Gr's
May	Nov.	Coronation	395	24.9	Q54c	2.2	7.8
Nov.	May	Falcon Rh.50c	545	24.9	Q100c	1.7	10.7
	May	Rhod'n Corp. 16½p.	42	23.4	0.56	6.5	2.0
—		Roan Cons. K4	252	24.9	Q0.125	φ	3.0
Nov.	May	Wankie Col. Rh.1	55	22.10	Q9c	1.5	11.3
—		Zam.Cpr.SBD0.24	49	11.74	—	—	—

AUSTRALIAN

[illegible]

TINS

[illegible]

COPPER

	Stock	Price	Last xd	Div Net	C'vr	Yld Gr's
—	Messina R0.50	233	26.12	Q10c	φ	2.5

MISCELLANEOUS

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Yld Gr's
—		Anglo-Dominion	140	—	—	—	—
—		Barymin	35	—	—	—	—
—		Burma Mines 17½p	14½	575	—	—	—
Aug.	Feb.	Cons. Murch. 10c	502	26.12	Q100c	φ	11.4
—		Northgate C$1	440	977	—	—	—
Jan.	July	R.T.Z.	460	5.11	†11.5	3.4	3.6
	—	Robert Mines	28	—	—	—	—
—		Sabina Inds. C$1	47	—	—	—	—
—		Tara Expln. $1	612	—	—	—	—

NOTES

Unless otherwise indicated, prices and net dividends are in pence and denominations are 25p. Estimated price/earnings ratios and covers are based on latest annual reports and accounts and, where possible, are updated on half-yearly figures. P/Es are calculated on "net" distribution basis, earnings per share being computed on profit after taxation and unrelieved ACT where applicable; bracketed figures indicate 10 per cent or more difference if calculated on "nil" distribution. Covers are based on "maximum" distribution; this compares gross dividend costs to profit after taxation, excluding exceptional profits/losses but including estimated extent of offsettable ACT. Yields are based on middle prices, are gross, adjusted to ACT of 30 per cent and allow for value of declared distribution and rights.

- ● "Tap Stock.
- ✱ Highs and Lows marked thus have been adjusted to allow for rights issues for cash.
- † Interim since increased or resumed.
- ‡ Interim since reduced, passed or deferred.
- ‡‡ Tax-free to non-residents on application.
- φ Figures or report awaited.
- †† Unlisted security.
- ¢ Price at time of suspension.
- ¶ Indicated dividend after pending scrip and/or rights issue: cover relates to previous dividends or forecasts.
- ◆ Merger bid or reorganisation in progress.
- ♦ Not comparable.
- ◊ Same interim: reduced final and/or reduced earnings indicated.
- § Forecast dividend; cover on earnings updated by latest interim statement.
- ‡ Cover allows for conversion of shares not now ranking for dividends or ranking only for restricted dividend.
- ☆ Cover does not allow for shares which may also rank for dividend at a future date. No P/E ratio usually provided.
- ◆ Excluding a final dividend declaration.
- ♦ Regional price.
- ‖ No par value.

§§ Yield based on assumption Treasury Bill Rate stays unchanged until maturity of stock. a Tax free. b Figures based on prospectus or other official estimate. c Cents. d Dividend rate paid or payable on part of capital; cover based on dividend on full capital. e Redemption yield. f Flat yield. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. j Payment from capital sources. k Kenya. m Interim higher than previous total. n Rights issue pending. q Earnings based on preliminary figures. s Dividend and yield exclude a special payment. t Indicated dividend: cover relates to previous dividend, P/E ratio based on latest annual earnings. u Forecast dividend: cover based on previous year's earnings. v Tax free up to 30p in the £. w Yield allows for currency clause. y Dividend and yield based on merger terms. z Dividend and yield include a special payment: Cover does not apply to special payment. A Net dividend and yield. B Preference dividend passed or deferred. C Canadian. E Minimum tender price. F Dividend and yield based on prospectus or other official estimates for 1979-80. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1978-79. K Figures based on prospectus or other official estimates for 1979-80. M Dividend and yield based on prospectus or other official estimates for 1980. N Dividend and yield based on prospectus or other official estimates for 1979. P Figures based on prospectus or other official estimates for 1978-79. Q Gross. T Figures assumed. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xR ex capital distribution.

"Recent Issues" and "Rights" Page 16

This service is available to every Company dealt in on Stock Exchanges throughout the United Kingdom for a fee of £500 per annum for each security

REGIONAL MARKETS

The following is a selection of London quotations of shares previously listed only in regional markets. Prices of Irish issues, most of which are not officially listed in London, are as quoted on the Irish exchange.

[illegible]

OPTIONS

3-month Call Rates

[illegible]

FINANCIAL TIMES

Monday February 18 1980

Mugabe cancels 'unsafe rally'

BY BRIDGET BLOOM IN SALISBURY

MR. ROBERT MUGABE, leader of Zanu (PF), yesterday cancelled a major rally in Bulawayo, Rhodesia's second city, on the ground that it would have been unsafe for him to attend.

It would have been Mr. Mugabe's first election venture into Matabeleland, where 16 of of the 80 black seats are at stake, since his return to Rhodesia on January 27. Tha province is the stronghold of the rival guerrilla leader, Mr. Joshua Nkomo.

Mr. Mugabe's decision was announced to a crowd of about 35,000 supporters, who had been waiting for three hours, shortly after police in Salisbury had admitted that the two meo blown up in a car in the African township of Harare on Thursday bad beeo members of the Rhodesia security forces.

Police had been working on the assumption that the two were responsible for bomb attacks on churches in Salisbury on Thursday. The official acknowledgment that the men were Rhodesian soldiers — unofficially said to have been members of the crack Selous Scouts — fed speculation that several of the bomb attacks here recently have been the work of Rhodesiaos, and designed to discredit Mr. Mugabe.

There have already been two attacks on Mr. Mugabe since his return three weeks ago. A grenade lobbed against the wall of his Salisbury house ten days ago caused no damage, but the guerrilla leader narrowly escaped death when a bomb exploded in the road just after his car had passed on its way to Fort Victoria airport last weekend.

Mr. Mugabe bas accused the Rhodesian forces, and in particular the black auxiliaries, of being responsible for the attacks. Police have refused comment. Yesterday a Zann (PF) official told journalists tbat Mr. Mugabe had cancelled his appearance at Bulawayo because he suspected another plot to kill him.

The leaders of the other major political parties have been out campaigning for the black poll, only 10 days away.

Bishop Muzorewa addressed a rally in the midlands town of Gwelo, and promised an end to nnemployment within five years if be was returned to power.

Mr. Joshua Nkomo, leader of the Patriotic Front, visited the Hippo Valley area, where last week Lord Soames, the Governor banned ZANU(PF) from holding political meetings in a bid to curb intimidation of voters. At the end of last week, British electioo officials reported "some improvement" in the general situation.

Lord Soames plans to meet leaders of all nine political parties contesting the election this week before the final run-up to the election next weekend. Polliog begins on February 27, and lasts for three days, though results are not expected until March 3 or 4.

Inflation jumps to 21.4% in Italy

By Rupert Cornwell in Rome

ITALIAN consumer prices rose by 2.3 per cent in January—the worst monthly figure since November 1976 and one which lifts the country's annual inflation rate to 21.4 per cent—the highest in the European Community.

The latest jump means that retail prices have climbed by 12 per cent in the last six months. After a brief respite, inflation is once again the most serious single danger facing the Italian economy.

In the likely absence of any strong government to attack the underlying structural problems behind inflation, it will probably be left to the monetary and credit policy of the Bank of Italy to apply the brakes.

At present the lira remains near the top of the European Monetary System, reflecting a healthy balance of payments surplus in both 1978 and last year.

Although no immediate threat to the country's external finances is expected, the surge in domestic prices has reinforced fears of a serious decline in Italian competitiveness in export markets—unless some remedial steps are taken.

According to figures issued by ISTAT, the national statistics institute, a third of the increase was due to the higher oil prices imposed by the Organisation of Petroleum Exporting Countries, and rises in electricity and telephone tariffs.

The January return was probably freakishly high. Nonetheless Government forecasts of a 16 per cent to 17 per cent rise in retail prices this year are already beginning to look somewhat optimistic, inspite of an expected slowdown in the economy during the coming months.

Italy, highly dependent on imported raw materials for its industry, is particularly threatened by the boom in commodity prices. At the same time, much of the January inflation is being built into the system under the so called "Scala Mobile" mechanism whereby wages are indexed to retail price movements.

Inflation is also being sustained by the high level of demand generated by buoyant industrial prodnction. Growth this year is forecast to drop from 5 per cent in 1979 to only 1 per cent or 2 per cent.

THE LEX COLUMN

Rococo rules for Stock Exchange

This Wednesday 12 or more London broking firms will meet to work out a joint response to the draft rules for dealing in overseas securities announced by the Stock Exchange last week. It is already clear that brokers are dismayed at the proposals, because their net effect is to tighten the restrictions on brokers' international trading and to loosen those applying to jobbers.

The draft rules are quite intricate, but their aim is simple: first, to put jobbers on a more equal, and more closely defined footing with brokers in their ability to trade foreign securities with foreign firms; second, to reinforce London's single capacity (principals separated from agents) market as *the* market for British securities.

So the first, vital, element in the draft rules is a distinction between "domestic" (UK) securities, which are to be carefully defined, and "overseas" securities, which are to be carefully defined also.

The next important change in pursuit of the two aims is that the whole concept of arbitrage has been removed from the rule book. Arbitrage is traditionally defined as the business of profiting from price differences between different markets. But in recent years it has increasingly been used by brokers as an excuse for dealing as principal, between buyers and sellers in different foreign centres, in both UK and foreign securities. Jobbers found themselves much more restricted in this activity.

DEAL DIRECT

Under the draft regulations a jobber will be able to deal in overseas securities directly with members of foreign stock exchanges, where he previously had contact only via a UK broker or via a limited number of "correspondent" firms abroad.

Two provisos apply here: first, the foreign securities house must be registered as a designated dealer by the London Exchange, whose council has thrashed out a cunning set of definitions of who is eligible; second, the jobber "must use his every endeavour" to ensure that the designated dealer is dealing with him as a dealer and not passing him orders from clients (who should properly be handled by UK brokers).

Under the rules which now replace the old abitrage arrangements the UK broker still has virtual *carte blanche* in the trading of overseas securities. He can deal as principal with designated dealers, just like a jobber. But if he deals with a *client* in an overseas security he must (a) charge full Stock Exchange commission; (b) execute the order on the SE unless he can get a *better* price elsewhere. He must also not act as principal in order to avoid charging full commission.

This leads to the major problem with the new rules as perceived by both brokers and jobbers. With the best will in the world it will be difficult for either class of British firm to know whether an inquiry from a designated dealer—a universal bank, say—is a client inquiry or a dealer inquiry.

It is the brokers who feel most exposed here. For they, not the jobbers, are in the commission business. First, they fear they may be by-passed in the business of overseas securities, even by major UK institutional investors; second, they fear that these rules will force them to send orders to jobbers instead of to long-established dealing contacts abroad upon whom they rely for some of the research data with which they woo their British clients into using them for overseas investment.

The new draft rules also impose fresh restraints on a broker's ability to arbitrage in domestic securities. Where before he could buy BP in Frankfurt and sell it in Hong Kong without involving a UK jobber, he will now have to restrict himself to designated dealers and, more important, he will have to have a UK jobber at one end or other of the transaction. This rule is in pursuit of the SE's second aim of reinforcing the UK single capacity market as the market for British securities.

All of the foregoing concerns members' trading abroad from a base in the UK. The other major section of the draft rules concerns the activities of overseas offshoots of jobbers and brokers. These are now to be called organisations.

Until now organisations abroad were chiefly limited to brokers. Such organisations were allowed to do whatever was allowed by the rules of the local Exchange. One can see that the removal of exchange controls suddenly increased the potential of such overseas centres to short-circuit single capacity and fixed commissions in UK securities dealing.

So "when in Rome do as the Romans" will now be replaced by a rococo set of rules dealing with every possible combination of broker organisation, jobber organisations, domestic securities, overseas securities, agent business, and principal business.

The basic thrust of these is to make sure that overseas organisations keep the market in British securities centred on London and single capacity, and to make sure that in trading overseas securities they confine their forays into dual capacity to the local market in which they are based.

COMPLEXITY

A first criticism of this set of draft rules must be that they are so complicated. A set of restrictions of this complexity has built-in obsolescence, particularly when the membership bas mixed feelings about them and when the whole SE rule book is bound for scrutiny by a restrictive practices court. More constructively these draft rules are good where they define UK securities, and good where they attempt to preserve the integrity of the UK central market in those securities. All members can have little argument with this. They seem bad where they try to extend British single capacity into the business of overseas securities.

The securities world outside the UK is a dual capacity world and any attempt to prevent British firms adapting to it in dealing in non-British securities is doomed to failure. The counter-argument is that dual capacity outside would infect the single capacity at home—that the UK broker will "bundle" a trade of an overseas and a domestic stock in a way that effectively reduces commission on the UK bit.

But, the potential for such leakage is also there in the current proposals. One suspects that this counter-argument is largely a respectable front for the underlying nitty gritty of the matter. An ordinance allowing both types of SE member to compete fully and fairly in the business of overseas securities would overturn too many vested interests—particularly on the broking side—to be acceptable to the membership. In short, the Stock Exchange's potential for invisible earnings is being hobbled by a demarcation dispute.

EEC Farm Ministers set for price battle

By Margaret Van Hattem in Brussels

THE ANNUAL battle over EEC farm prices gets under way in Brussela today as Agriculture Ministers of the Nine meet to start their attack on the European Commission's cost-cutting proposals.

Tbe commission believes that the savings it bas proposed are the minimum oeeded to avert a major fioancial crisis this year. But most Ministers bave given advance warning that they will accept oo cuts likely to hit their own farmers.

The commission estimates that if its proposals are not accepted the Community's hudget is likely to be exhausted by the end of 1980.

Its proposals are modest. Tba commission admits that price cuts of up to 25 per cent would be needed to bring EEC markets back into balance so it is simply aiming to prevent a further increase in food mountains for the farming year 1980-1981.

It has proposed price rises averaging 2.4 per cent. But it has made these conditional on Ministers accepting reforms aimed at making farmers bear the cost of any future increases in surplus production, particularly in the dairy sector.

According to Mr. Finn Olav Gundelach, the Farm Commissioner, the proposal to slap a heavy tax on increased milk production is not negotiable. If Ministers reject this, they risk the withdrawal of all proposals, which would mean an effective price freeze.

But France bas already rejected this "super levy" and is expected to try to focus discussion on its own set of proposals for cutting costs in the dairy, beef and sugar sectors.

The Belgians and Dutch are also planning to advance their own ideas for containing dairy spending. Belgium wants a progressive levy which would exempt most small dairy farmers, including most Belgian dairy farmers, while the Dutch would like the Community to pay farmers for producing less.

Little progress is expected at today's talks or indeed until resolution of the impasse between the Council of Ministers and the European Parliament over farm spending and its budgetary consequences.

The whole issue of prices and reforms is likely to be overshadowed by the Anglo-French lamb war.

France, having failed to meet last Thursday's commission deadline in legal proceedings relating to the French curbs on British lamb imports, is expected to give its reply later today.

Howe prepares Budget amid deepening gloom

BY PETER RIDDELL, ECONOMICS CORRESPONDENT

THE BROAD balance of his March 26 Budget will be decided during the next fortnight by Sir Geoffrey Howe, Chaocellor of the Exchequer.

In the past few days he has received submissions from Treasury officials, and the latest, gloomier than ever, economic forecasts.

Official advice is believed to focus on the interlinked problems of deterioratioo in the outlook for inflation and outpnt since the last forecasts in the autumn; difficulty of reducing monetary growth to within the target range; and the serious financial aqueeze on manufacturing industry.

The forecasts project a fall in total ootput this year of nearer 3 per ceot tban the 2 per cent estimated last November, and a 12-month rate of retail price inflatioo of more than 15 per cent at the end of this year against the 14 per cent previonsly expected.

There has been considerable debate at the Treasury on whether world economic activity is holding up for longer than expected. But Sir Geoffrey is more concerned to emphasise the general downgrading of growth prospects in recent months because of the sharp rise in oil prices.

The forecasts still play an important part in the Treasury's Budget preparations but their main significance for Ministers is their implications for the financial outlook, particularly for the likely level of public sector borrowing.

On present pre-Bndget policies this now projected at between £10.5bn and £11hn in 1980-81 compared with a likely outcome of near £9bn in 1979-80.

At the sama time, Sir Geoffrey faces considerable unease, not least among Conservative supporters, about the level of nominal interest rates. This will be a major factor in Budget decisions.

Current monetary developments make it unlikely he will be able to announce a cut in Minimum Lending Rate on Budget day but he will want to present fiscal and monetary policies which will permit a fall in interest rates as soon as possible afterwards.

Sir Geoffrey's starting point will be to decide on a public sector borrowing limit for 1980-1981. Ministers believe borrowing should decline as a percentage of Gross Domestic Product over the medium-term.

But they recognise that there may not be much change in the proportion in recession years, when speoding on unemployment benefit rises and revenue falls.

This has generally been taken as implying a target of betwen £9bn and £10bn, though the precise figure will depend heavily on what Sir Geoffrey and his advisers think will receive a favourable response from City financial markets and will allow a pbased reductioo in interest rates.

Within these limits the main issues are the halance betweeo direct and indirect tax changes and the extent of any help to be given to industry.

There are signs of some caution within Whitehall about the size of indirect tax increases whicb will boost an already high rate of price inflation.

This could also limit the extent of any direct tax changes, though extra flexibility would be provided if the present 25 per cent reduced-rate band of income-tax is abolished, as has been suggested by Treasury officials.

Sir Geoffrey has been mada fully aware of the problems of industry but is reluctant to do anything that would undermine the main policy of using tight monetary policy to help curb inflation.

However, a reduction in employers' National Insurance surcharge will be considered, even though, somewhat surprisingly, this was not included in the Confederation of British Industry's main Budget recommendations.

Treasury urged to tell more to help watch on spending

BY PETER RIDDELL

GREATER DISCLOSURE by the Treasury of the economic assumptions behind public spending decisions bas been urged by the special advisers to the new all-party Commons Select Committee on the Treasury and Civil Service.

At a private meeting last week the committee decided to forward to the Treasury a series of papers prepared by its special advisers in the hope of influencing the annual spending White Paper due to be published in the middle of next month.

The committee has not taken a formal view on the proposals and none of the papers has yet been published. But it is understood that the main theme is that more information should be provided in the White Paper so that those outside Whitehall can assess the full implications of the Government's spending plans.

Among the suggestions, made both now and about previous White Papers, are that there should be more discussion about economic policy options, and that spending plans should be linked more specifically to medium-term monetary, fiscal and output projections. It should also be easier to compare planned expenditure with actual performance, and statements about the objectives of particular programmes should be included.

The special advisers to the committee are Mr. Terry Ward from the Department of Applied Economics at Cambridge, Dr. Alan Budd of the London Business School, and Dr. Paul Neild of stockbrokers Phillips and Drew.

The decision to forward these papers highlights the committee's desire to achieve closer Parliamentary scrutiny over public spending and other economic issues.

Major improvements have been made in recent years in the standard of disclosure in the annual spending White Papers and the latest proposals are likely to be viewed sympathetically by certain Treasury officials. However, Mr. John Biffen, the Chief Secretary to the Treasury, is opposed to the publication of a lengthy discussion of the economic implications and the medium-term outlook.

Apart from the practical problem of shortage of time, there is the special snag this year that the White Paper will appear about a week before the March 26 Budget. It is likely, anyway, that the White Paper will concentrate on details of spending plans and that the economic content will appear in the Financial Statement and Budget Report (the Red Book) a week later.

Moreover, proposals for greater disclosure about the financial and economic assumptions behind spending plans are in practice likely to become tied up with the debate about whether a medium-term financial framework should be published with the Budget, setting out monetary objectives for a number of years ahead.

Continued from Page 1

Canada

The constitutional position if there is a close result will be complicated. By tradition, coalitions are formed only in times of severe crisis, and by tradition the leader of the largest party forms the Government.

The central issue in the elections has been Mr. Clark's intention to raise the domestic price of crude oil from its present subsidised low level of C$14.75 (£5.50) a barrel to 85 per cent of the world prices by 1985. Mr. Broadbent will find that hard to stomach and would have difficulties sustaining Mr. Clark in office.

But the Prime Minister has signalled his readiness to compromise on another issue dear to the New Democrats. He said in Ottawa on Friday that the partial denationalisation of Petrocan, the State-owned oil company with C$4.2bn (£1.6bn) in assets, was not a dogma.

Mr. Trudeau's position on energy is vaguer, though he too recognises that the price of oil and gas must rise. He is pleading for less hurry in order to cushion the shock and to protect the competitive position of Canadian manufacturing industry.

BR plans £100m freight profit a year by 1990

BY LYNTON McLAIN

BRITISH RAIL, which has already lost £12m in freight revenues because of the steel strike, is aiming for an annual profit of £100m for the traditionally loss-making—and until last year, heavily subsidised—freight business by 1990.

A two-fold strategy is unfolding at the British Rail Board to help meet the target. It is based on attempts to win back business lost to the road haulage industry over the past 25 years and hoped for dramatic improvements in productivity.

The immediate aim is a £15m a year cut in freight operating costs in two years.

British Rail believes that up to 5 per cent of the freight tonnage moved by road (lorries accounted for 99bn tonne kilometres of freight moved in 1978) can be won back. This, it is believed, could help gain the railways an extra 40m tonnes of freight a year by the late 1980s.

It accepts that any substantial progress towards the target is dependant on swift agreement with the rail unions on BR's biggest ever freight productivity package, now under discussion.

The proposals call, above all, for the elimination of excess marshalling yard capacity. The British Railboard would like to phase out most of the 458 rail freight terminals and the 38 wagon marshalling yards by 1987. And it wants significant changes in the next two years.

Its aim would be to cut out the losses in terminal handling, road freight delivery services and train ferry traffic.

It cost British Rail £35.05m to operate these terminals and to collect and deliver goods by road in 1978. In addition BR spent over £33m on freight shunting and marshalling.

The board now believes that for the first time since productivity talks started some progress can be expected by April.

Continued from Page 1

Engineering

expected decline in capital goods investment, following the latest round of oil price increases worldwide, high interest rates in the UK and the start of a recession. The only ray of hope in the report is that demand for engineering products will increase in the second half of the decade as a result of increased investment in energy projects.

Assessing the economic background to the forecast, the report says it is now apparent that between 1976 and 1979 the UK's overseas trade surplus in manufactured goods has fallen by an amount almost exactly matching the reduction in the trade deficit in oil.

"The UK has simply enjoyed an income from extracting oil in exchange for a reduction in income from manufacturing activity." The latest available figures show the overall trade surplus in engineering products in 1979 being considerably lower than the previous year after inflation has been taken into account.

Weather

UK TODAY

MAINLY cloudy with rain moving east, some bright intervals later; mild.

London, S.E. and E. England, E. Anglia

Mainly dry and clondy, bright intervals. Max. 10C (50F).

S., N. and N.E. England, Midlands, Borders, Edinburgh, Dundee, Aberdeeo

Rain in places, mild. Max. 7 to 9C (45 to 48F).

Channel, S.W. and N.W. England, Wales, Lakes, I. of Man, S.W. and N.E. Scotland, Glasgow, Cent. Highlands

Occasional rain, becoming persistent. Extensiva hill fog. Max. 7 to 9C (45 to 48F).

Argyll, N.W. Scotland, N. Ireland

Rain spreading from south, sunny intervals later. Max. 8 to 10C (46 to 50C).

Outlook: Rain in most parts; brightening in W.

WORLDWIDE

		Y'day midday °C	°F			Y'day midday °C	°F
Ajaccio	C	13	55	London	F	11	52
Algiers	F	18	64	Luxmbg.	F	7	45
Amsdm.	F	8	48	Luxor	S	22	72
Athens	S	12	54	Madrid	S	13	55
Bahrain	C	21	70	Majorca	S	17	63
Barcina.	S	17	63	Malaga	F	18	66
Belfast	F	11	52	Malta	C	14	57
Belgrd.	Sn	−1	30	M'chstr	C	8	48
Berlin	C	2	36	Melbne.	S	20	68
Biarritz	S	13	55	Milan	S	9	48
Bmghm.	F	11	52	Montreal	C	−14	7
Blackpl.	C	8	46	Munich	R	4	39
Bordx.	C	7	45	Nairobi	S	24	75
Boulgn.	Fg	8	46	Naples	C	11	52
Bristol	F	13	55	Nwcstl.	F	11	52
Brussels	C	8	48	N. York	S	−4	25
B. Aires	S	26	78	Nice	F	13	55
Cairo	S	18	64	Nicosia	F	13	55
Cardiff	F	12	54	Oporto	C	13	61
Cape T.	S	21	70	Oslo	S	−2	28
Chicago	S	−11	12	Paris	C	8	46
Cologne	C	6	43	Perth	S	32	90
Cpnhgn.	C	−1	30	Prague	C	2	36
Corfu	F	12	54	Reykjvk.	S	4	39
Dublin	F	11	52	Rhodes	S	11	52
Dbrvnk.	S	11	52	Rio J'o	C	32	90
Ednbgh.	F	10	50	Roma	C	13	55
Faro	S	19	66	Salzbrg.	R	1	34
Florence	F	12	54	Singapr.	S	28	82
Frankft.	F	8	46	Stckhm.	S	2	36
Funchal	C	19	66	Strasbg.	F	8	46
Geneva	C	8	46	Sydney	C	25	77
Gibrltr.	C	16	61	Tangier	C	17	63
Glasgow	R	9	48	Tehran	S	6	43
G'nsey	C	8	46	Tel Aviv	Th	12	54
Helsinki	S	−4	25	Tenerife	F	18	64
H. Kong	S	28	82	Tokyo	S	6	43
Innsbrk.	R	3	37	Toronto	C	−11	12
Invrness	C	9	48	Tunis	C	13	55
I.o.Man	S	10	50	Valencia	S	19	66
Jersey	C	7	45	Venice	F	6	43
Jo'burg	C	21	70	Vienna	R	3	37
L. Plms.	F	18	64	Warsaw	C	0	32
Lisbon	C	13	55	Zurich	R	5	41
Locarno	F	8	46				

C—Cloudy. F—Fair. Fg—Fog. R—Rain. S—Sunny. Sl—Sleet. Sn—Snow. Th—Thunder.

Registered at the Post Office. Printed by St. Clement's Press for and published by the Financial Times Ltd., Bracken House, Cannon Street, London, EC4P 4BY.